Ontario

# 2005
# ONTARIO BUDGET

## *Investing in People Strengthening our Economy*

**The Honourable Greg Sorbara**
**Minister of Finance**

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Budget Papers

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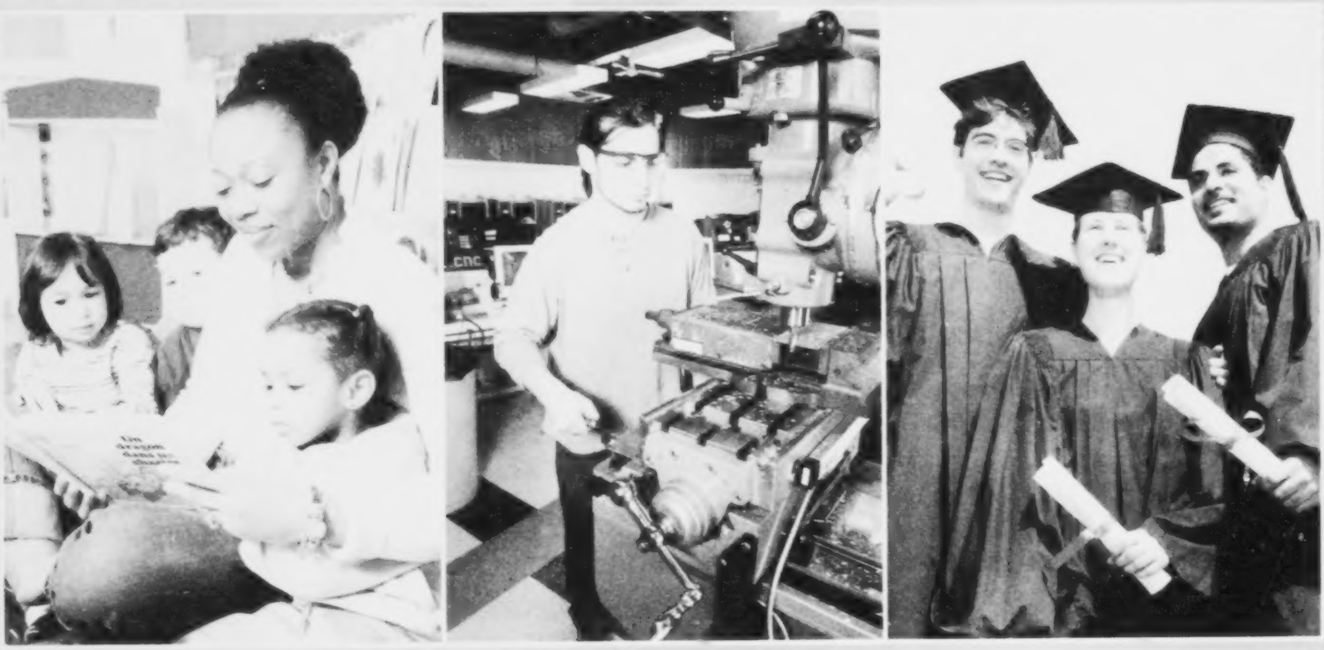

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# PAPER A

## Investing in People—Managing Ontario's Finances

## The Plan for 2005

# Introduction

## STRENGTHENING ONTARIO BY INVESTING IN PEOPLE

The 2005 Budget strengthens the province by investing in people while continuing to bring discipline to the management of their hard-earned tax dollars. The government is continuing to make key investments in Ontarians' education and skills, health and prosperity. In particular, the Budget features $6.2 billion in cumulative new investments in postsecondary education, including $683 million in 2005-06, rising to $1.6 billion by 2009-10. Education is the single most important investment required to build a strong economy in the 21st century. Only jurisdictions with highly educated, skilled and innovative people will attract investments and value-added jobs.

The deficit has been reduced by $2.5 billion, from $5.5 billion in 2003-04 to $3.0 billion in 2004-05. The Province's plan, which includes historic and long-term investments in postsecondary education, is to eliminate the deficit no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

The 2004 Budget introduced a new approach: Budgeting for Results. Ontarians know, and understand, that increased spending alone does not guarantee better results. That is why the government constantly reviews the programs it funds against the results they deliver. The government is also reporting regularly on its progress towards achieving expected results, so that Ontarians know what they are getting in return for their investments in education, health care and a strong economy.

This Budget builds on the plan laid out in the 2004 Ontario Budget. It builds on the progress that has been achieved for people through that plan. The government is getting results. For example, class sizes in Ontario's schools are getting smaller in the early grades and test scores are going up. Ontarians have improved access to better health care, through: the approval of 52 Family Health Teams and three networks of Family Health Teams; the upgrade of seven MRI and 27 CT scanners; an additional 5,380 surgical procedures, including 1,700 cancer surgeries; and a record $1.3 billion investment in home care in 2004-05. A total of 108,000 new jobs have been created over the past year, substantial investments have been made in the province's infrastructure, and the Ontario Automotive Investment Strategy is being successfully used to leverage billions of dollars in new investment in one of Ontario's most important sectors.

The plan is working. Real progress is being made in overcoming both of the deficits that were inherited by this government: the largest fiscal deficit since 1996-97 and the severe deficit in the quality of the public services valued most by Ontarians. There is reason for hope and optimism, but no room for complacency. Much work remains to be done. This Budget is the foundation for that work. It represents the next phase in the plan to ensure that Ontario is the place to be, for years to come.

## A STRONG FISCAL FOUNDATION: REDUCING THE DEFICIT

A strong fiscal foundation is essential to Ontario's prosperity. Ever-increasing deficits threaten the viability of the public services Ontarians deserve, from the schools that educate their children to the home care that seniors depend upon. In addition, it is unfair to saddle the next generation with the cost of today's consumption.

But prior to the government assuming office, there were several years during which Provincial program spending grew much faster than the rate of growth in taxation revenue. In fact, between 2000-01 and 2003-04, Provincial program spending increased by 21 per cent, while taxation revenue actually declined by 0.7 per cent. This imbalance between the growth in Provincial program spending and taxation revenue created the conditions for a structural deficit that resulted in a deterioration of the Province's finances. In October 2003, an independent review of the Province's finances by former Provincial Auditor Erik Peters concluded that the newly elected government was inheriting a significant deficit for 2003-04, which has since been confirmed to be $5.5 billion.

The 2004 Budget outlined the government's plan to eliminate the deficit and ensure responsible fiscal management of the Province's finances. This Budget provides an update on the Province's progress and outlines the next phase of the plan.

An important part of that plan is to modernize the way in which government operates and delivers public services in Ontario. The 2004 Budget announced the government's intention to undertake a rigorous review of all government programs to ensure they are being delivered in a cost-effective and efficient manner, and to find savings of $750 million in 2007-08. The government has already identified over half of this savings target. As more than 80 per cent of Provincial program spending is in the form of transfer payments to individuals and organizations such as the government's broader public-sector (BPS) partners, modernization efforts are being pursued across the entire BPS to make more efficient use of public tax dollars.

The interim outlook for 2004-05 forecasts a deficit of $3.0 billion—a $2.5 billion reduction from the previous year, and an in-year improvement of $3.1 billion from the $6.1 billion deficit projected for 2004-05 in the 2004 Budget.

The government's medium-term fiscal plan aims to reduce the Provincial deficit from the $5.5 billion recorded in 2003-04 and $3.0 billion in 2004-05 by setting steadily declining deficit targets of $2.8 billion in 2005-06, $2.4 billion in 2006-07, $1.5 billion in 2007-08, and achieving a balanced budget no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

This paper provides an overview of the following:

- **Section I:** Strengthening Ontario by Investing in People: Early Learning, Education, Postsecondary Education, Health and Infrastructure;
- **Section II:** Ontario's Fiscal Plan;
- **Section III:** Details of the Fiscal Plan—Ontario's Medium-Term Fiscal Outlook; and
- **Section IV:** Making Progress: Modernizing Government.

Additional information on Ontario's finances can be found in Appendix 1, *Details on Ontario's Finances*.

# Section I: Strengthening Ontario by Investing in People: Early Learning, Education, Postsecondary Education, Health and Infrastructure

In the 21st-century global economy, Ontario's people are its greatest asset. Future prosperity depends on the education, skills and health of the people of Ontario, and the infrastructure that supports them.

This section looks at the plan for early learning, schools, colleges, universities, apprenticeship and training programs, health care and infrastructure—the pillars that will support future prosperity.

## EARLY LEARNING: BEST START

Children need the best start in life to achieve their full potential—and for Ontario to achieve its full potential. Research supports the view that the early years have a significant influence on a child, from the development of social skills to the ability to learn and succeed.

Despite this knowledge, there has been a lack of investment in high-quality child care and early learning programs, especially over the last decade.

For many working families who want access to quality licensed child care, spaces are hard to find and fees are too expensive. They deserve better. They deserve affordable access to child care and early learning programs.

The government's goal is to ensure that children in Ontario will be ready and eager to achieve success in school by the time they start Grade 1.

To date, the government has:

- created 4,000 new subsidized child care spaces in 2004-05 across the province;
- announced demonstration sites for a comprehensive Best Start plan in Timiskaming, Lambton and Kent, and Hamilton;
- repaired child care facilities and improved learning resources and equipment at child care centres, through investments of $29 million since 2003-04;
- eliminated restrictions on access to child care fee subsidies for parents with RRSPs and RESPs, making more families eligible for subsidies;
- strengthened infant hearing and preschool speech and language programs to identify, treat and support children with communication disorders by investing $6 million in 2004-05; and
- screened all consenting mothers and newborns and provided home visits for mothers of newborns with developmental or other risk factors through investments of $8 million in 2004-05.

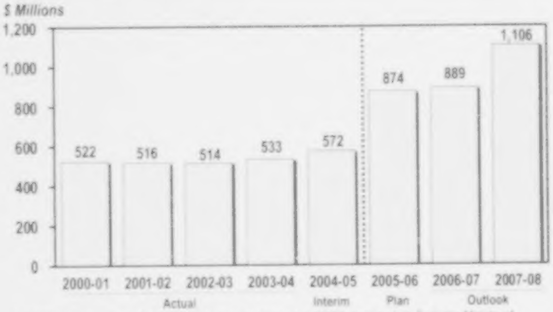
These changes are part of the Province's longer-term vision—known as Best Start—as announced by the Minister of Children and Youth Services.

The next phase of the plan is as follows:

To continue to implement Best Start, and increase the number of children arriving at school ready to learn, the Province will work in partnership with parents, municipalities, schools, communities and early childhood educators.

The recent federal budget proposed that the federal government would provide Ontario with an additional $272 million in 2005-06, rising to $451 million by 2007-08, as part of a national early learning and child care framework. Over the next three years, the Province will use all existing Multi-Lateral Framework and recently proposed new federal contributions to expand child care and early learning opportunities, with priority for children aged four and five. Without these federal transfers, Ontario will not be able to move aggressively in investing in this important area.

**Ontario's Child Care Planned Expense***
**Operating and Capital**



* Expense contingent on funding to Ontario as announced in 2005 federal budget. Excludes Ministry of Children and Youth Services' child care administration costs.
Source: Ontario Ministry of Finance.

With these federal transfers:

- combined Provincial operating and capital spending on child care will more than double compared to spending levels in 2003-04;
- by the end of 2007-08, the Province will significantly increase the number of licensed child care spaces at or near schools so that junior and senior kindergarten students can benefit from a seamless full day of learning and child care;
- affordability of child care will be improved through the redesign of child care subsidies, and by increasing the number of families that can access child care fee subsidies; and
- the learning experience of children in child care will be enhanced through the creation of a new College of Early Childhood Educators to establish high standards in this profession.

The Province will consult with experts and communities to develop early learning strategies to ensure strong linkages between the child care and kindergarten learning experience.

When fully implemented over 10 to 15 years, Best Start envisions extending a full day of learning beginning at age two and a half. Additional and sustained federal contributions are needed if Ontario is to implement the full Best Start vision.

## EDUCATION: SUCCESS FOR STUDENTS

Schools pass on to children the knowledge that Ontarians all value—and the values they all acknowledge. That is why making publicly funded education the best education is essential to building a bright and promising future for all of Ontario. This is how Ontario can build the best workforce and the strongest society.

Between 1998 and 2003, funding did not keep up with cost pressures facing school boards. Schools struggled to introduce innovations needed to best serve students and their families. The 2004 Budget laid out a plan for student success. It provided predictable, multi-year funding to help students succeed, while bringing peace and stability to the system. This funding ensures school boards have sufficient resources to lower class sizes, hire more teachers, meet operating costs, maintain school facilities, provide up-to-date textbooks and reach out to more students at risk. It allows the Province to cap class sizes at 20 students from junior kindergarten (JK) to Grade 3 by the 2007-08 school year.

The government is focusing on achieving two key results. The first result is high levels of achievement in literacy and math for every student before age 12. Students who do well in the early grades are far more likely to complete high school and keep learning beyond high school, in a college or university, apprenticeship or training program. The second result is to lower the dropout rate through the Learning to 18 strategy. Currently, about 30 per cent of all students entering high school leave without graduating.

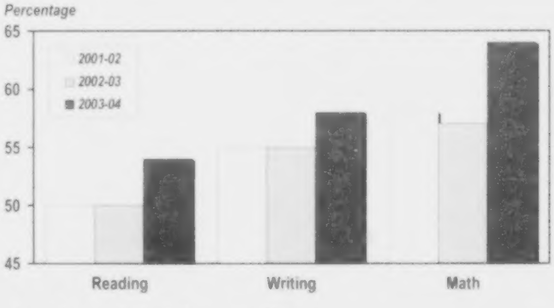
The government's goals are to:

- increase the percentage of Grade 6 students performing at or above the standard on the Provincial reading and math tests to 75 per cent by 2008;
- improve the performance of those schools where two-thirds or more of the students do not meet the Provincial standard in Grade 3 reading tests; and
- reduce the number of students who leave high school without a diploma.

To date, the government has:

- provided support to help Grade 3 and Grade 6 students achieve the first improvements in the Provincial literacy and math tests in three years;
- provided support in 2004-05 to an additional 57 schools that fell below the Provincial average on literacy and math tests, bringing to 100 the total number of schools receiving help from turnaround teams of experts in literacy and math;

**Percentage of Grade 3 Students Achieving Provincial Standards (School-Year Basis)**



Source: Education Quality and Accountability Office

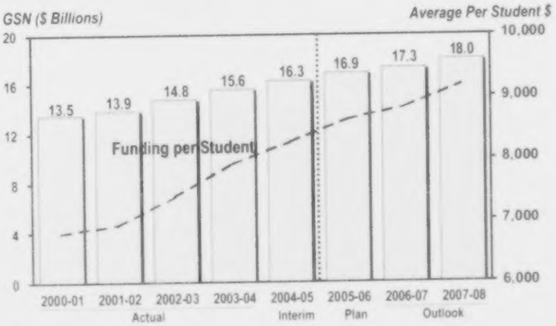
- completed training of 8,000 Lead Teachers in literacy and math for JK to Grade 3, which is the equivalent of two teachers for each elementary school. Training is underway for another 8,000 Lead Teachers and for all other elementary classroom teachers in literacy and numeracy instruction.
- hired 1,100 new teachers, resulting in smaller class sizes in about 1,300 schools, as a first step in the plan to reduce class sizes in JK to Grade 3 to 20 students per class, through an investment of $90 million in the 2004-05 school year;
- invested $45 million in 2004-05 in equipment to strengthen technological education programs in high schools;
- invested $1 million in school-college-work initiatives to promote college education among at-risk high school students, increasing to $2 million in 2005-06;
- invested $18 million in more than 100 programs to increase high school graduation rates;
- funded designated leaders in each school board to develop and co-ordinate programs for at-risk youth in order to increase graduation rates; and
- extended the Ontario Scholar Program to include workplace- and college-bound students.

These improvements were achieved by providing school boards with more than $650 million in additional Grants for Student Needs (GSN) funding in the 2004-05 school year, compared to 2003-04.

The next phase of the plan is as follows:

- Over the next three years, the Province will continue to implement its plan, announced in the 2004 Ontario Budget, to make substantial investments in education. By 2007-08, the Province will provide $2.4 billion in new GSN funding to school boards compared to 2003-04 levels, an increase of more than 15 per cent on a school-year basis. Average per-student funding will increase by more than $1,250 or 16 per cent to almost $9,200.
- In 2005-06, funding will increase by almost $650 million, to $16.9 billion, or 8.4 per cent higher than the 2003-04 school year.

**Grants for Student Needs**
**(School-Year Basis)**



Source: Ontario Ministry of Education.

- In addition to Grants for Student Needs, the Province will also provide $250 million in 2005-06 for specific programs to increase literacy and numeracy levels and high school graduation rates.
- Four-year collective agreements are being negotiated across the province between teachers and school boards, within an agreed-upon Provincial framework, bringing peace and stability to Ontario schools.

- Annual Good Places to Learn funding, announced in February 2005, will allow school boards to undertake $4 billion in projects over the next three years, including school construction, facility repairs and renewal.
- The Province will implement the next steps in achieving a cap of 20 students per class for JK to Grade 3.
- The Province will also provide funding to hire specialist teachers in support of higher literacy and math achievement and to increase programming in physical education, music and the arts.
- The Province is implementing a Learning to 18 strategy in 2005-06 that will include funding to school boards for additional teachers to assist struggling students. It will also include an improved Grade 9 math curriculum that will maintain high standards and be more suitable for applied programs, and new Grade 9 and 10 courses will provide students with more opportunities to acquire credits.
- The Province will work closely with school boards to review board business practices and to implement strategies to ensure the effective use of education funding. For example, the Province will assist school boards to work collaboratively to reduce costs in purchasing, transportation and capital planning.

Overall, the Province's education plan will provide $2.9 billion in additional GSN funding to support school boards and to provide targeted literacy and numeracy programs, compared to the funding levels in September 2003.

## REACHING HIGHER: THE MCGUINTY GOVERNMENT PLAN FOR POSTSECONDARY EDUCATION

Ensuring the best start for the children of Ontario, and ensuring that public education is the best education, is essential to people's success and the future of Ontario. But it must not stop there. If Ontario is to achieve its full potential, it is critical to reach higher when it comes to postsecondary education. Ontario's colleges, universities and training programs must equip people for success by preparing them to generate the ideas, products and jobs that will ensure future prosperity—the prosperity that funds the social programs that keep society strong. A strong postsecondary education also provides each individual with the opportunity to achieve his or her full potential. Unfortunately, Ontario's colleges and universities are under-resourced—revenues have not kept up with enrolment and the costs associated with a 21st-century postsecondary education system. This has a number of implications, including the fact that Ontario has fewer students who earn postgraduate degrees compared to many U.S. jurisdictions.

In the 2004 Budget, the government asked former Premier Bob Rae to undertake a review of postsecondary education in Ontario. His recommendations, delivered in February 2005, are consistent with the government's strategic direction of strengthening the province by investing in its people.

This Budget announces the McGuinty government's action plan for colleges, universities and training, highlighted by a new $6.2 billion cumulative investment, including an additional $683 million in 2005-06, rising to $1.6 billion by 2009-10. That will represent a 39 per cent increase compared to the

2004-05 funding base.

This is a historic, multi-year investment in postsecondary education—the largest in 40 years. The Province expects that this investment will yield the largest improvements in 40 years.

It is an essential investment—one that will translate into a competitive advantage, economic growth, and a higher standard of living for Ontario. The brains and know-how of a skilled workforce are the competitive edge of the 21st century. Ontario requires a postsecondary education and training system that is among the best in the world.

With the Reaching Higher investments, the people of Ontario will see improved access and quality in postsecondary education, better facilities, and postsecondary institutions will be held accountable for accomplishing these objectives.

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**The Reaching Higher plan will deliver:**

Access

- More student financial assistance.
- Increased enrolment in colleges and undergraduate university programs.
- Increased graduate student enrolment.
- Increased enrolment in medical schools.
- Increased apprenticeship positions.
- More new Canadians who are better able to contribute their skills to Ontario's economy.

Quality

- More faculty.
- More time for faculty to spend with their students.
- More innovative research.
- Better resources and improved pathways for students.

Accountability

- A proposed new Higher Education Quality Council of Ontario charged with identifying performance targets for the postsecondary education system.
- Agreements between the government and postsecondary institutions that ensure that these results are achieved. Funding will be contingent upon these results.

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The government's goals are:

- **Access**—enhanced student financial assistance, increased enrolments, and expanded opportunities for aboriginals, francophones, new Canadians, persons with disabilities and "first generation" students whose parents did not attend postsecondary institutions.
- **Quality**—the postsecondary education and training system will be one that achieves the highest standards in teaching, research and student learning experience, resulting in the skills and innovation that will support economic growth.

- **Accountability**—targets and measures will be set to monitor the quality and performance of the postsecondary education sector.

To date, the government has:

- frozen tuition fees for 2004-05 and compensated colleges and universities for the revenue loss;
- expanded access to student financial assistance, benefiting over 50,000 students;
- increased funding for nursing education by $15 million in 2004-05, including funding to enhance the qualifications of nursing faculty;
- introduced a new Apprenticeship Training Tax Credit of up to $5,000 for each of the first three years of an eligible apprenticeship; and
- provided additional support for apprenticeships, at-risk youth and bridge training for new Canadians.

The next phase of the plan for Access is as follows:

- Improve student financial assistance so that 135,000 low- and middle-income students benefit from enhancements in 2005-06. This includes 32,000 students who will benefit from a new low-income tuition grant. The grant will provide up to the lesser of $6,000 or 100 per cent of their tuition for 16,000 first-year dependent students in co-operation with the federal government and the Canada Millennium Scholarship Foundation. To further enhance student support, Ontario will fund a grant of up to the lesser of $3,000 or 50 per cent of their tuition for 16,000 second-year dependent students.
- Continue tuition freeze for 2005-06 and begin work immediately with students, colleges and universities on a new tuition framework to be in place by September 2006.
- Significantly increase enrolments at colleges and universities.
- Improve access and success of under-represented groups including francophones, aboriginals, persons with disabilities and students whose parents did not attend postsecondary institutions.
- Substantially expand graduate education by 12,000 full-time students by 2007-08 and 14,000 students by 2009-10.
- Expand new first-year medical education spaces by 15 per cent.
- Increase the number of new annual entrants into apprenticeship by 7,000, reaching 26,000 new entrants in total by 2007-08.
- Increase the number of internationally trained people qualified to work in Ontario.

The next phase of the plan for Quality is as follows:

- Increase faculty at colleges and universities to accommodate higher enrolment and improve student success.
- Improve student experience through better student/faculty interaction and learning support systems.
- Achieve higher student retention and completion rates.
- Improve pathways for students and increase collaboration between Ontario colleges and universities.

The next phase of the plan for Accountability is as follows:

- Improve system performance and result measures, including quality and access, through a proposed new Higher Education Quality Council of Ontario and new bilateral performance agreements with postsecondary institutions.
- Improve public reporting of system-wide performance and results.

### *Reaching Higher Investments*

By 2009-10, Ontario will provide $6.2 billion in new cumulative investments for postsecondary education and training through the Reaching Higher plan. By 2009-10, new investments will rise to $1.6 billion, a 39 per cent increase compared to the 2004-05 funding base.

As the new plan is implemented, Ontario needs a strong commitment from all partners: the federal government, parents and students, colleges and universities, employers and workers, and alumni. Strong partnerships will mean that results will be achieved faster.

**Reaching Higher: New Ongoing Operating Investments***
**($ Millions)**

| | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | Cumulative Total |
|---|---|---|---|---|---|---|---|
| Student Financial Assistance | 150 | 192 | 241 | 282 | 314 | 358 | 1,537 |
| Operating Grants to Colleges and Universities | 50 | 447 | 732 | 932 | 958 | 1,156 | 4,275 |
| Training and Apprenticeship and Other Initiatives | - | 44 | 62 | 86 | 87 | 87 | 366 |
| **Total New Investment** | **200** | **683** | **1,035** | **1,300** | **1,359** | **1,601** | **6,178** |

* Increase over 2004-05 base funding, which is the 2004-05 Interim excluding $200 million in expenditures provided for the Ontario Student Opportunities Trust Fund, endowments for graduate fellowships and faculty research chairs, and college stabilization.

Source: Ontario Ministry of Finance.

To initiate the plan in 2004-05, the Province provided $200 million in operating funding:

- $100 million to create endowments at universities that will provide fellowships for outstanding graduate students;
- $50 million for the Ontario Student Opportunities Trust Fund (OSOTF) to match private-sector donations for student financial assistance;
- $25 million to help stabilize colleges experiencing financial difficulties; and
- $25 million to endow new faculty chairs for research and improve graduate education.

In addition, the Province provided $250 million in one-time capital funding in 2004-05:

- $200 million to begin needed repairs to college and university buildings; and
- $50 million to improve college equipment.

### *Student Financial Assistance*

Ontario is taking immediate steps to ensure that all eligible students can afford postsecondary education.

The government will:

- provide $192 million in new investments in 2005-06 to enhance student financial assistance. By 2009-10, new investments for financial assistance will reach $358 million, more than double the base funding provided in 2004-05. Student loan programs will be enhanced and new grants will be made available;
- as a first step, join with the federal government to expand eligibility for student loans and increase Ontario weekly loan amounts from $110 to $140 for single students. Ontario will also reduce how much money middle-income parents are expected to contribute to their children's education, expand interest relief and recognize computer costs in student loan needs assessments;
- establish a new Millennium-Ontario Access Grant through an agreement with the Canada Millennium Scholarship Foundation to enhance access for low-income students. In co-operation with the Foundation, 16,000 eligible first-year students will receive grants of up to $3,000. When combined with the new low-income grant being provided by the federal government, eligible first-year students could receive a total grant of up to the lesser of $6,000 or 100 per cent of their tuition. Ontario will further enhance student financial assistance by funding a low-income tuition grant of up to the lesser of $3,000 or 50 per cent of their tuition for 16,000 eligible second-year students;
- implement these various student assistance program changes in the fall of 2005, benefiting approximately 135,000 low- and middle-income students this year;
- provide $50 million annually to match funds raised by colleges and universities to establish endowments for student financial assistance. A new Ontario Trust for Student Support will be based on an allocation method that takes into consideration the limited fundraising capacity of smaller institutions; and

- continue to work with the federal government to broaden and expand student assistance in 2006-07 and beyond.

### *Enhanced Opportunity*

The government will support new strategies to provide greater opportunity for those who have not traditionally benefited from postsecondary education.

- $10 million in 2005-06, rising to $55 million by 2009-10, will be provided to institutions to undertake new programs and outreach in order to improve participation in postsecondary education by all under-represented groups including francophones, aboriginals, persons with disabilities and those who would be the first in their families to attend college or university. Part of this funding will be used to help French-language colleges and bilingual universities foster a more vibrant francophone postsecondary education community in Ontario.
- Northern and rural colleges will be provided with $20 million in new funding by 2007-08 to increase access to high-quality programs in their communities.
- A new community-based nursing education program in northern Ontario will be piloted.
- A new strategy to attract more international students and to encourage study abroad for Ontario students will be implemented.

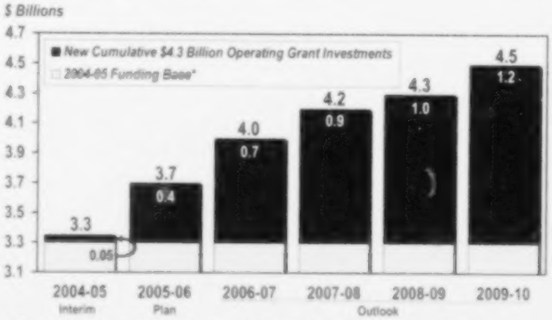
### *New Funding for Postsecondary Institutions*

In this Budget, the government is providing significant multi-year increases to operating grants to colleges and universities. By 2009-10, the Province will make new cumulative investments of $4.3 billion to improve postsecondary education. To ensure that these investments achieve measurable results, the Province will work with colleges and universities to establish performance measures, including targets for hiring new faculty, accommodating higher enrolments and improving student success.

College and university operating grants in 2005-06 will be $447 million or 14 per cent higher than 2004-05 base funding. In 2009-10, new ongoing investments will reach $1.2 billion, or 35 per cent higher than base funding in 2004-05.

These new operating investments in colleges and universities will fund enrolment growth, expand graduate education and create new faculty positions. The investments will result in improvements to the student learning experience by increasing contact between faculty and students, and by providing better student services, and will result in higher quality research. Overall, quality will improve. The

**Operating Grants to Colleges and Universities**



* Excludes $50 million in one-time expenditures for college stabilization and faculty research chairs.
*Source:* Ontario Ministry of Finance

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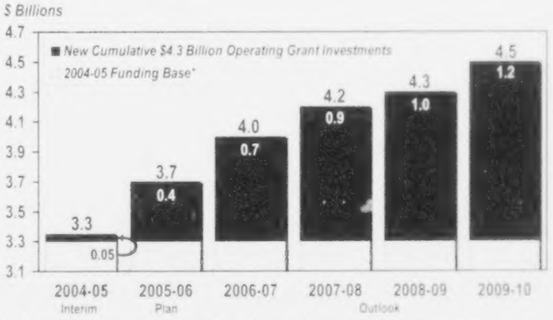
**Operating Grants to Colleges and Universities**



* Excludes $50 million in one-time expenditures for [illegible]
Source: Ontario Ministry of Finance.

government's expectation is that this historic investment will not simply be used to enrich compensation packages within the system.

Key initiatives include:

- expanding graduate education to help make a place for double-cohort students and address faculty shortages through new investments of $220 million annually by 2009-10;
- increasing the number of new first-year spaces at medical schools by 15 per cent and improving the quality of medical education by providing $95 million in new funding;
- providing capital support to ensure that medical schools and graduate departments can accommodate the increased number of students;
- proposing to establish a Research Council of Ontario to advise on and co-ordinate research priorities and allocate funding based on these priorities; and
- working with postsecondary institutions to ensure that the student experience is enhanced.

Universities will also be able to apply for Ontario Strategic Infrastructure Financing Authority loans for investments that support their work as world-class educators and innovators.

### *Greater Accountability*

The government's new investments will be tied to performance and results targets.

- Multi-year agreements between the government and institutions will set out, among other expectations, enrolment and quality improvement targets.
- The government proposes to establish a new arm's-length Higher Education Quality Council of Ontario that would take a lead role in supporting quality improvement in postsecondary education. The Council would undertake research on indicators and outcomes, advise on system-wide results, and report on system performance.
- The government proposes to make Ontario's universities subject to the provisions of the *Freedom of Information and Protection of Privacy Act* and to ensure that Ontario publicly funded postsecondary institutions are transparent and accountable to the people of Ontario while, at the same time, respecting academic freedom and competitiveness.

### *An Effective Partnership with the Federal Government Will Accelerate the Plan*

The government is committed to its new plan for postsecondary education and training. A full and effective partnership with the federal government would allow the Province to move more quickly to implement the Reaching Higher plan. Ontario is the economic engine of Canada. Investments in postsecondary education are a vital part of Ontario's future economic growth, which will benefit all of Canada.

- Ontario could make faster progress in improving postsecondary education if the federal government responds positively to Ontario's call for a restoration of funding for postsecondary education. In addition, Ontario is asking the federal government to join with Ontario to enhance student financial assistance and funding for research and graduate studies.

- Ontario also needs to establish immigration and labour-market agreements with the federal government. Through these agreements, new funding and transfers will support labour-market training and other services for new Canadians.

### *Creating a Responsive Training and Apprenticeship System*

Ontario recognizes that a responsive training and apprenticeship system, including effective programs for new Canadians and at-risk youth, is another key element for success in today's global economy.

This Budget builds on current programs with new training investments that reinforce the government's priorities.

- An additional $17.5 million annually by 2007-08 to create more systematic and supported access to labour-market services for two priority client groups: new Canadians and prospective apprentices. New services will be part of the new One-Stop Training and Employment System, a more seamless and co-ordinated service delivery network currently being implemented, as announced in the 2004 Budget.
- $2.5 million per year to expand Ontario's current Bridge Training programs, supporting additional projects to assess competencies, and to provide training and work experience for skilled new Canadians.
- $4 million over the next two years for colleges to pilot improved processes and programs that will help new Canadian students better access college training.
- $1 million over two years to pilot programs with employers to help them better recognize and use the skills of new Canadians. The first pilot will support the Toronto Region Immigrant Employment Council (TRIEC) for outreach with employers in the Greater Toronto Area.

In order to protect the interests of students and set standards for quality, the government intends to introduce legislation that would, if enacted, enhance the regulation of the operations of private career colleges that offer vocational training to more than 35,000 students.

### *Reaching Higher Will Mean Tangible Benefits*

The government is committed to achieving the goals of access, quality and accountability. This Budget provides new multi-year investments to achieve these goals. Working with all its partners, Ontario will offer higher education that will be among the best in the world. A skilled workforce will support continued economic strength in Ontario.

In conclusion, the Reaching Higher plan will result in tangible benefits:

- Doubling the funding available for student assistance by 2009-10, with 135,000 low- and middle-income students immediately benefiting this year from the new tuition grant, higher weekly loans and reduced parental contributions to student assistance, allowing students to reach higher.

- Significantly more college and university students enrolled and preparing for the jobs of tomorrow, creating the economic growth of tomorrow.
- Assured quality teaching and an improved student learning experience, which will be competitive with the best in the world.
- 14,000 more graduate students by 2009-10, creating knowledge and ideas for economic growth and ensuring Ontario's role as a North American leader in research and innovation.
- More doctors through a 15 per cent expansion of first-year medical education spaces.
- Thousands more new Canadians able to contribute their skills to Ontario's economy.

## HEALTH: BETTER ACCESS TO BETTER CARE

Ontario's greatest asset is its people. And Ontarians' greatest asset is their health. The government's plan is to do more to help people stay healthy, to better care for them if they do become sick, and to do what is necessary to ensure medicare is sustained for generations to come.

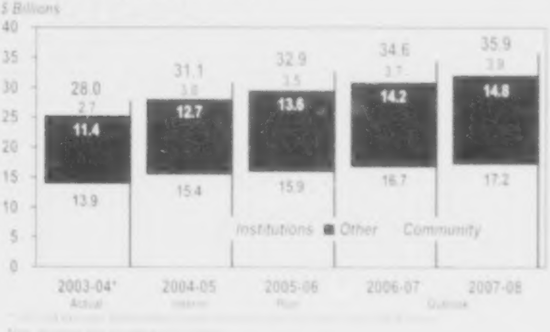
A publicly funded health care system defines what it is to be Canadian. It is one of the ways Canadians care for one another. But it is even more than that. It is a competitive advantage for Ontario – one that helps attract investment and jobs, especially in light of the soaring cost of private medical insurance that is often cited when job creation lags in the United States.

The 2004 Ontario Budget recognized the importance of health to Ontarians. It laid out a plan to:

- promote better health and prevent illness;
- improve access to doctors, nurses and other health professionals;
- shorten wait times for key services;
- modernize health infrastructure; and
- increase efficiency and accountability in the health care sector.

Progress is being made in all of these areas, and the 2005 Budget builds on this plan. By 2007-08, an additional $4.8 billion will be invested in health care programs and services than in 2004-05. But this Budget, like its predecessor, recognizes that money alone is not the answer. Fundamental change is needed to ensure that Ontarians' health needs can be met and the "medicare advantage" preserved.

### Ministry of Health and Long-Term Care Operating Spending



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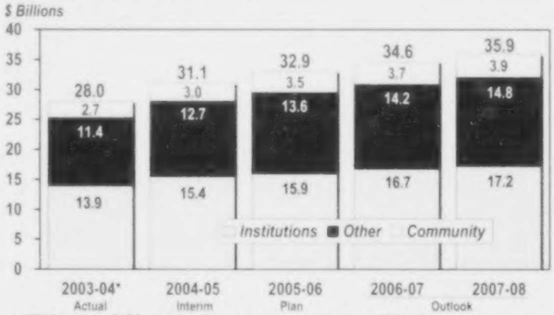
**Ministry of Health and Long-Term Care Operating Spending**



* 2003-04 excludes SARS-related health costs and major one-time costs of $824 million.
Note: Numbers may not add due to rounding.
*Source:* Ontario Ministry of Finance.

Change is needed because health care costs continue to grow at unsustainable rates. In fact, as Ontario's population grows and ages, and new medical advances are discovered and put into practice, health care costs continue to grow faster than the economy. That is why the government continues to balance the need to slow the rapid rate of growth in health care spending with the need for targeted investments in key service areas. It is critical to sustain medicare for future generations while, at the same time, ensuring its responsiveness to the needs of Ontarians today.

What follows is a step-by-step look at the progress made—and the next phase of the plan—for each of the goals first identified in the 2004 Budget.

### *Keeping Ontarians Healthy*

The government's goal is to promote better health and prevent illness.

To date, the government has:

- added three new vaccines free of charge (for chicken pox, meningococcal meningitis and pneumococcal disease) to the recommended schedule of routine childhood immunizations. Last year, over 800,000 vaccinations were administered, saving families up to $600 per child;
- introduced legislation that, if passed, will prohibit smoking in all enclosed workplaces and public places in the province as of May 31, 2006;
- funded an ad campaign to motivate smokers to quit. Provided additional funding to the Smokers' Help line, run by the Ontario Division of the Canadian Cancer Society, to expand their hours of service. Also created stupid.ca, an anti-smoking campaign created by youth, for youth;
- directed school boards to remove all junk food from vending machines in elementary schools to encourage young people to make healthy food choices;
- established ACTIVE2010, a program to help local and not-for-profit organizations provide and enhance opportunities for physical activity and community sport and recreation. As well, in the fall of 2004, Pause to Play was launched to encourage children and youth to make physical activity a regular part of their daily lives;
- supporting healthy, active lifestyles by reconnecting school gyms and fields to neighbourhood non-profit groups through an annual investment of $20 million to cover the incremental costs of community use of school facilities;
- increased the Provincial share of public health unit costs from 50 per cent in 2004 to 55 per cent in January 2005, rising to 65 per cent by January 2006 and to 75 per cent by January 2007, supporting the importance of these units in the Provincial health system and improving the management of infectious disease outbreaks; and
- launched Operation Health Protection, a three-year action plan that contains the most comprehensive changes to the public health system since the 1980s. This action plan will review the governance and accountability structure of public health units; increase the number of medical and scientific personnel; establish a committee of experts to provide advice to the Chief Medical Officer of Health on prevention, surveillance and control of infectious diseases in Ontario; and has established new communications and information technology (IT) capabilities within public health units.

The next phase of the plan is as follows:

- Improving access to community support services for seniors, frail elderly people and people with physical disabilities. By 2007-08, over 232,000 Ontarians will receive support in their community. A co-ordinated and integrated support system will allow people to continue to live in their communities rather than having to be admitted to institutions.
- Expanding the capacity of the mental health system to provide counselling, crisis response and early intervention for almost 79,000 more individuals in need of mental health services in the community by 2007-08.
- Enabling health care providers in hospital emergency departments to electronically access the drug history records of Ontario's drug program recipients by 2007-08. This electronic access will help to speed up the process of diagnosis and treatments, as well as reduce the incidence of drug-related adverse medical reactions and unnecessary hospital admissions.
- Initiating a new patient drug information program among pharmacists, doctors and patients to improve management of patients' medications.

### *Improving Access*

The government's goal is to improve access to doctors, nurses and other health professionals.

To date, the government has:

- approved 52 Family Health Teams (FHTs) and three networks of FHTs to improve access to primary care for over one million Ontarians in 47 communities. This exceeds the original target for this spring, which had been 45 FHTs. Family Health Teams include doctors, nurses and other health professionals working together to keep patients healthy and provide comprehensive care when they need it;
- begun expansion of primary care services to 350,000 Ontarians through Ontario's 54 Community Health Centres by investing an additional $30 million over two years from 2003-04 to 2005-06;
- provided $12 million in 2004-05, growing to $26 million in 2005-06, to train up to 200 International Medical Graduates (IMG) to increase the number of doctors in Ontario and conducted the largest clinical assessment of foreign-trained physicians ever held in Canada. Through IMG-Ontario, an assessment, training and placement centre, internationally trained doctors can become qualified to practise medicine in Ontario;
- signed a new four-year agreement with the Ontario Medical Association that will help bring more doctors to underserviced communities; encourage physicians to care for additional patients; provide more preventive care such as helping Ontarians quit smoking, screening for cancer, and managing chronic diseases, including diabetes; support physician services to reduce wait times for cancer care, cardiac care, hip and knee replacements and cataract surgeries; and promote more efficient use of hospital resources;
- funded more than 3,000 new nursing positions in hospitals, long-term care homes, home care and community care agencies in 2004-05;
- funded initiatives to improve working conditions and educational and professional opportunities for nurses including $60 million to purchase 11,000 bed lifts to help reduce on-the-job injuries;

$10 million for continuing education programs delivered by nursing associations; and $10 million over four years to increase the number of fully qualified faculty available in postsecondary institutions to educate tomorrow's nurses;

- improved health care in northern and remote communities by investing $14 million in 2004-05 in telemedicine technology. With this funding, 28 new sites were opened, bringing the total number of hospital sites equipped with telemedicine technology to 168 sites across Ontario; and
- invested a record $1.3 billion in home care last year to provide services to almost 454,000 Ontarians, including services for an additional 21,400 acute care patients.

The next phase of the plan is as follows:

- Increase the number of Family Health Teams (FHTs) to 150 by 2007-08 to provide access to primary health care services for approximately 2.5 million Ontarians.
- Expand the number of first-year spaces at medical schools by 15 per cent and improve the quality of medical education through $95 million in funding through the Ministry of Training, Colleges and Universities. This is in addition to the 56 new medical students who will begin their training when the Northern Ontario School of Medicine opens in September 2005. At full capacity, the school will have 224 undergraduate and over 200 residency positions to accommodate graduate students each year.
- Create 14 Local Health Integration Networks (LHINs) to facilitate the delivery of health care services in Ontario. When fully implemented, it is proposed that the LHINs would plan, co-ordinate and fund local health care services in their areas, putting their patients' needs at the centre of their plans and aligning the resources of the network to support local health care priorities.
- Support end-of-life care services, including those in residential hospices, for 4,300 adults and children in their communities by investing an additional $39 million this year.

### *Shorter Wait Times*

The government's goal is shorter wait times for key services.

To date, the government has:

- increased funded hours of operation on existing MRI machines and upgraded seven MRI machines and 27 CT scanners to yield an additional 33,000 or 14 per cent more MRI exams and capacity for a further 81,300 or eight per cent increase in CT scans in 2004-05;
- carried out an additional 5,380 surgical procedures in 2004-05, including 1,700 cancer surgeries, 1,680 or seven per cent more hip and knee joint replacement surgeries, and 2,000 or two per cent more cataract surgeries; and
- gathered wait-time and volume information last year pertaining to cataract surgery, hip and knee replacements, MRI/CT scans and selected cancer surgeries and cardiac procedures to establish a baseline against which progress will be measured.

The next phase of the plan is as follows:

- As Ontario's hospitals continue to play a key role in the health care system, funding will increase from $11.4 billion last year to $12.0 billion in 2005-06 and to $13.0 billion by 2007-08. The government is moving forward to further modernize the way hospitals are funded. For the first time, individual hospitals will receive service-based funding allocations for more than one year.
- Nine new or upgraded MRI machines will be operating by the end of 2005-06. When combined with funding for additional hours on existing machines, this will result in 53,200 or 19 per cent more MRI exams being performed this year.
- In 2005-06, hospitals will provide almost 2,900 more cancer surgeries, 14,000 or 13 per cent more cataract surgeries, almost 7,000 or eight per cent more cardiac procedures and over 4,300 or 16 per cent more hip and knee joint replacements than in 2004-05.
- A new Web site will provide Ontarians with information on key health care services. By the end of 2006, the Web site will have complete and regularly updated information on wait times for five key health service areas: hip and knee replacements, cataract surgery, cancer surgery, MRI/CT exams and selected cardiac procedures.
- With the help of experts in each of the key fields, targets will be established for acceptable wait times to ensure timely access to the five key services. As well, based on recommendations from expert panels, process standards and improvements to make hospitals more efficient in their delivery of key health services will be implemented.

### *Modernizing Health Infrastructure*

The government's goal is to modernize Ontario's health infrastructure by updating equipment and expanding the capacity to cope with a growing and aging population.

To date, the government has:

- provided $61 million to hospitals in 2004-05 to help address infrastructure deficiencies and to maintain the current buildings in good condition; and
- accelerated 19 projects to expand and renew facilities and to carry out the planning and design work for regional cancer centres in Kingston and Ottawa through an investment of $184 million in 2004-05.

The next phase of the plan is as follows:

- Providing funding for new hospital projects over five years that will reduce wait times, provide better services in high growth areas, and modernize older hospitals.

### *Efficiency and Accountability*

The government's goal is to increase efficiency and accountability, as the Province moves towards a health care system that is locally managed, streamlined, cost-effective and focused on results for patients.

To date, the government has:

- reached service-based performance management agreements with hospitals to help ensure that all hospitals achieve agreed-upon outcomes within allocated resources; and
- passed legislation to establish the new Ontario Health Quality Council to report annually to the public on results being achieved in the health care sector.

The next phase of the plan is as follows:

- Work with health care providers and the public to continue to find the best ways to allocate resources, and ensure that spending growth in the health care sector is affordable and delivers the outcomes patients deserve.
- Continue to press the federal government to provide a fair share of Canada Health Transfer cash funding to meet Ontario's needs.

## INFRASTRUCTURE: BUILDING A BETTER TOMORROW

Ontario's economy depends on the strength of its people, and the people of Ontario depend on infrastructure that is modern, reliable, efficient and affordable. Children learn better in schools that are in good repair, and patients cope better in comfortable, up-to-date hospitals. Ontarians' health depends on water and sewer systems that keep them safe from illness. Commuters need reliable public transit and highway systems to travel from home to work. Businesses need transportation networks to get the resources required to produce goods and services, and to get goods and services to market, especially in an export-based economy.

Ontario's auto sector, for instance, works on a system of "just-in-time" deliveries of inventories. Instead of expensive warehousing, assembly plants depend on last-minute parts deliveries. For every minute of delay caused by gridlock on overused highways, productivity is threatened, and so are the jobs and prosperity that Ontarians and the Province depend upon.

Investments in infrastructure have been made over the past 10 years, but, too often, some of the biggest infrastructure needs have been put on hold. That must change. To ensure Ontarians can meet the demands of the 21st century, Ontario's infrastructure must be strengthened before too much of it is beyond repair.

The government is committed to a five-year, $30 billion infrastructure investment plan. This plan includes the Province's own gross capital investment over the next five years, capital funding provided to school boards through operating grants, funding provided through per-diem payments for long-term care homes, funding provided to municipalities through the gas tax for public transit, cost-sharing by partners, and the value of projects that will be paid for over their useful lives.

In July 2004, the government released *Building a Better Tomorrow: An Infrastructure Planning, Financing and Procurement Framework for Ontario's Public Sector*, to support the development and implementation of the government's infrastructure investment strategy. The Framework sets out core principles that will be followed whenever the government is procuring any major capital project, including: the public interest must be paramount; value for money must be demonstrable; and processes must be fair, open and transparent.

## *Key Objectives*

**INFRASTRUCTURE PLAN:**

Renewing Infrastructure

- Increasing investment to keep the highway system in a state of good repair in both southern and northern Ontario.
- Investment to begin to address the infrastructure deficit in schools and postsecondary institutions.
- New program introduced last year to provide regular funding to hospitals for upgrades and renewal.
- Upgrading municipal water and wastewater systems and developing a strategy to meet future investment needs.

Building New Infrastructure

- Funding new, expanded and upgraded hospitals, including many in rapidly growing areas of the province.
- New spaces in graduate schools and medical schools to accommodate the double cohort and expand the supply of doctors.
- Major, sustained investment in key transit services, including a 10-year plan to expand and renew GO Transit, five-year funding for the Toronto Transit Commission (TTC), and future funding for the Ottawa O-Train.
- New highway projects to improve access to border crossings and address highway congestion and safety concerns.
- Investing in the creation of 15,000 new affordable housing units; $300 million over four years for research infrastructure; and numerous new electricity projects.

Managing Better

- More emphasis on planning and design to ensure that infrastructure projects are well planned and meet future needs, including funding for planning work for transportation, hospital and justice projects.
- Examine ways to reduce the time required for the planning, design and approval of major transit expansion projects.

Furthermore, the government will look to fund capital assets over their service life, rather than funding them upfront as the project is built. This funding practice is consistent with how the government funds its investment in its own assets over each asset's useful life, and provides a more consistent basis for making capital decisions across the public sector.

This approach to infrastructure investment will allow the government to expand hospital and postsecondary infrastructure more quickly than would be possible using traditional funding by:

- spreading the costs of projects over the useful life of the asset; and
- avoiding cost overruns by shifting risk to the project contractor and establishing clear accountability.

The government is also investigating ways to encourage Ontario's pension plans to invest in building Ontario's infrastructure rather than investing Ontario's workers' money abroad.

The government will also review the existing condition of its infrastructure assets, to identify the repairs necessary to protect the service potential of these assets. The Province has recently announced grants to school boards to enable them to finance long-term borrowing for a major investment program to upgrade the condition of Ontario's schools.

The government has provided new support to municipalities to enable them to invest in their own infrastructure. This includes gas tax revenue estimated to be approximately $1.4 billion over the next five years to support capital investments in public transit. More details on the government's infrastructure plan are included in Paper B, *Achieving Our Potential: Progress Towards a New Generation of Economic Growth*.

The Province will continue to urge the federal government to make sustained financial investments in Ontario's infrastructure to support economic growth, key public services and sustainable development. The Province will also seek more flexibility from the federal government on cost sharing, so that the federal government contributes a larger share of funding for some projects.

### Asset Review

The Province needs to find new ways of meeting its infrastructure priorities. As part of meeting this challenge, the Province is reviewing its existing investment in Provincial assets to ensure that they continue to serve the needs of the public. Any decisions made by the Province with respect to the strategic management of its assets will be guided by protecting the public interest, value for money and meeting government priorities.

It is never appropriate to sell assets to pay for ongoing operating expenses. Any net proceeds of sales of government assets will, therefore, be invested in priorities that are of lasting value. As a first priority, the proceeds of strategic asset management will be used to improve the condition of existing infrastructure and to provide new infrastructure.

### Ontario Strategic Infrastructure Financing Authority (OSIFA)

The Ontario Strategic Infrastructure Financing Authority (OSIFA) is an innovative financing vehicle that provides Ontario's municipalities and other broader public-sector partners with access to low-cost and longer-term loans to renew and build critical public infrastructure. To date, OSIFA has committed to provide 166 municipalities with $2.1 billion in low-cost and longer-term loans for more than 1,000 local infrastructure projects such as local roads and bridges, and water and wastewater facilities. Additional details on these projects are provided in Paper B, *Achieving Our Potential: Progress Towards a New Generation of Economic Growth*. The municipalities participating in OSIFA's loan program are saving millions of dollars in interest charges and transaction fees over the life of their loans—savings that benefit local taxpayers. Beginning in 2005-06, the OSIFA loan program is being broadened so that loans will also be available to municipalities for investments in local culture, tourism and recreation infrastructure projects. Universities will also be able to apply for OSIFA loans for investments that support their work as world-class educators and innovators. Energy conservation projects will be a key OSIFA priority for both the municipal and university sectors.

## RESPONSIBLE FISCAL MANAGEMENT

While the 2005 Budget outlines significant investments in key priority areas, it also provides a responsible plan to address the financial burden of the structural deficit. The government's fiscal plan takes important steps to balance the budget. The 2004-05 interim deficit is projected at $3.0 billion, $2.5 billion lower than the previous year and $3.1 billion lower than the 2004-05 projection in the 2004 Budget. Further details are included in Appendix 1, *Details on Ontario's Finances*. The Province's plan, which includes historic and long-term investments in postsecondary education, is to eliminate the deficit no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

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**Key objectives:**

- Eliminate the deficit no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.
- Hold the line on spending in most areas—15 ministries' operating budgets in 2005-06 flatlined, declining or increasing at a rate less than inflation.

**Key achievements to date include:**

- 2004-05 interim deficit projected at $3.0 billion—$2.5 billion lower than the previous year and $3.1 billion lower than the 2004-05 projection in the 2004 Budget.
- Over half of the $750 million program review savings target set for 2007-08 in the 2004 Budget has been identified.

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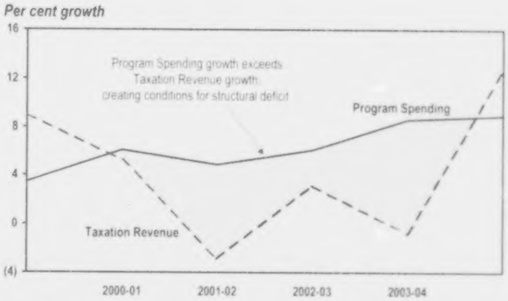
The 2005 Budget also provides for necessary investments in key areas such as publicly funded education, postsecondary education, training, health care and the economy, but in a balanced and responsible manner. Living within the Province's means and promoting efficient public services is key to addressing the structural deficit and ensuring that necessary programs and services are affordable and available in the long term.

## Section II: Ontario's Fiscal Plan

### ONTARIO'S UNDERLYING STRUCTURAL DEFICIT

The creation of Ontario's structural deficit began in 2000-01, when program spending growth began to outpace growth in taxation revenue. In fact, between 2000-01 and 2003-04, spending on Provincial programs grew by 21 per cent while Provincial taxation revenue, which provides the bulk and most stable source of Provincial revenue, actually declined by 0.7 per cent. A slowing economy during this period, combined with the impact of tax cuts and a rapid escalation in program spending, culminated in a deficit of $5.5 billion in 2003-04. This was largely a structural deficit, which threatened to persist unless action was taken.

**Creation of the Structural Deficit**



*Source:* Ontario Ministry of Finance.

In response to this situation, the 2004 Budget Plan aimed to eliminate the deficit without destabilizing health care, education and other key public services by holding average annual growth in total Provincial program spending to less than the growth in taxation revenue over the medium term.

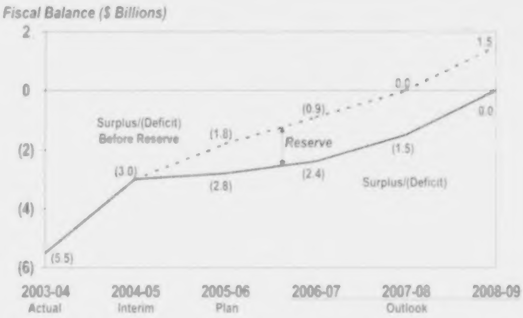
The 2005 Budget reaffirms the government's commitment to the fiscal principles originally outlined in the 2004 Budget. What has become clear over the past year, however, is that Ontario's social and infrastructure deficits cannot be eliminated without additional investments over the medium term. The government believes that years of neglect in these critical sectors must continue to be addressed, but in a fiscally responsible and balanced manner. The government's medium-term fiscal plan takes into account the additional necessary investments being made to improve Ontario's health care system, public schools and postsecondary education and training system. Through steadily declining deficit targets and strategic investments in the public infrastructure and services that people value, the medium-term fiscal plan will promote economic prosperity and ensure responsible management of the Province's finances, including the elimination of the deficit.

## A RESPONSIBLE AND DISCIPLINED FISCAL PLAN

The Province's plan, which includes historic and long-term investments in postsecondary education, is to eliminate the deficit no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

Eliminating the structural deficit is a key component to restore responsible management to Ontario's finances. However, the government will not force the achievement of a balanced budget at the expense of all other considerations or ignore the need to revitalize the Province's publicly funded school, postsecondary education, training and health care systems. Fiscally sustainable social programs that people value and that promote economic growth are the hallmarks of good governments.

**Ontario's Fiscal Plan**



Source: Ontario Ministry of Finance

However, the government cannot ignore the financial burden of the structural deficit either—discipline is still required. The fiscal plan in this Budget represents a disciplined and balanced approach to investing in the long-term viability of public services that people value most while modernizing the delivery of these services and ultimately returning the Province to fiscal stability.

## KEY ELEMENTS OF THE FISCAL PLAN

This government introduced the *Fiscal Transparency and Accountability Act, 2004*, which requires any government that plans for a deficit to show how and when it will balance the Province's budget.

The key elements by which the government's fiscal plan will eliminate the deficit in a responsible way are as follows:

- Achieving a health care system that delivers high-quality, results-focused and patient-centred health care within a sustainable funding envelope over the medium term.
- Finding the remaining $343 million in program review savings required to meet the $750 million target for 2007-08 as set out in the 2004 Budget.
- Ensuring a sustainable revenue base to support the programs and services people value, through such measures as hiring additional service and enforcement staff for tax administration, and improving the management of the Province's revenue and accounts receivable.
- Maintaining cautious and prudent fiscal planning including an annual reserve.
- Making disciplined decisions that hold the line on spending in most areas—15 ministries' operating budgets flatlined, declining or increasing at a rate less than inflation.

The 2004 Ontario Budget indicated that in order to provide funding for priorities while at the same time balancing the budget, holding the line on spending in most other areas would be required. This Budget provides substantial new investments for postsecondary education and health care. At the same time, many ministries' operating budgets are either flatlined or declining. There are 15 ministries in 2005-06 that are growing at a rate less than inflation, which is expected to be 2.1 per cent in 2005.

**Spending Held in Check—15 Ministries' Operating Budgets Flatlined, Declining or Increasing at a Rate Less Than Inflation**
**($ Millions)**

| | Interim 2004-05 | Plan 2005-06 | Per Cent Change |
|---|---|---|---|
| Agriculture and Food* | 733 | 564 | (23.1) |
| Attorney General | 1,183 | 1,199 | 1.4 |
| Community Safety and Correctional Services | 1,741 | 1,753 | 0.7 |
| Consumer and Business Services | 201 | 178 | (11.4) |
| Culture | 295 | 275 | (6.8) |
| Environment | 310 | 314 | 1.3 |
| Executive Offices | 19 | 19 | 0.0 |
| Finance—Own Account** | 1,141 | 1,126 | (1.3) |
| Intergovernmental Affairs | 13 | 8 | (38.5) |
| Management Board Secretariat*** | 687 | 469 | (31.7) |
| Municipal Affairs and Housing | 771 | 683 | (11.4) |
| Native Affairs Secretariat | 18 | 14 | (22.2) |
| Natural Resources | 485 | 492 | 1.4 |
| Office of Francophone Affairs | 4 | 4 | 0.0 |
| Tourism and Recreation | 184 | 163 | (11.4) |

* Excludes One-Time and Extraordinary Costs.

** Excludes the Community Reinvestment Fund/Ontario Municipal Partnership Fund, Community Reinvestment Fund One-Time Transition Funding, Interest on Debt and Power Purchases.

*** Excludes Retirement Benefits and Contingency Fund.

Source: Ontario Ministry of Finance.

## KEY RISKS TO THE ECONOMIC AND FISCAL OUTLOOK

Given the multi-year nature of the government's fiscal plan, there are a number of risks and cost drivers that could affect the way in which the plan is achieved.

The achievement of the government's fiscal plan is subject to economic risks. Ontario is part of an interconnected global economy and developments beyond its borders, particularly the strength of the U.S. economy, the Canadian dollar and oil prices, strongly influence the province's growth. Additional details on Ontario's economic risks are outlined in the Appendix to Paper B, *Ontario's Economic Outlook*.

A key cost driver within the Province's deficit outlook is the demand for funding in the health care sector that has been growing each year at unsustainable rates. Over the past five years, from 2000-01 to 2004-05, Ontario's health care operating spending has increased at an average annual rate of 8.2 per cent, about twice the rate of Ontario's nominal GDP growth. By contrast, taxation revenue growth has averaged only 2.9 per cent annually during this period. Only 10 years ago, total health care spending of $17.8 billion accounted for 38 per cent of total Provincial program spending. In 2005-06, the government will invest $32.9 billion in Ontario's health care system, amounting to 46 per cent of total program spending.

Growth in health care spending that exceeds growth in revenue can only "crowd out" available funding for other programs, services and investments, ultimately threatening the long-term economic growth potential of the Province. Health care expense must more closely align with the rates of growth in Provincial revenue to address the structural deficit. The government's medium-term fiscal plan is based on lowering the rate of growth in health care spending to be more in line with economic and revenue growth.

Maintaining fiscal sustainability can also be complicated by the uncertain or transitory nature of federal funding. For example, targeted federal wait-time funding will be reduced by $600 million nationally in 2008-09, although provinces will be expected to maintain the associated services. As well, total transfers to Ontario from the federal government will decline by more than $200 million in 2006-07. Similarly, Provincial investments in early learning and child care are contingent on the federal government providing nationwide funding on an ongoing and sustainable basis.

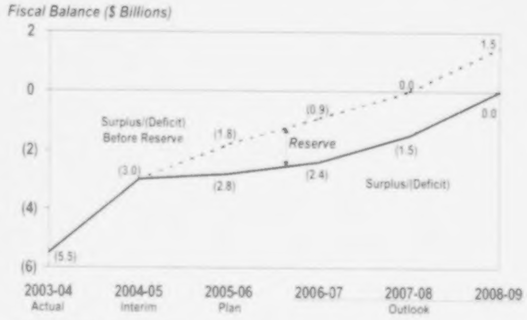
More details on potential risks, cost drivers and contingent liabilities are contained in Appendix 1, *Details on Ontario's Finances*.

# Section III: Details of the Fiscal Plan—Ontario's Medium-Term Fiscal Outlook

## MEDIUM-TERM FISCAL OUTLOOK

The *Fiscal Transparency and Accountability Act, 2004* requires the government to provide a medium-term fiscal outlook in the budget that includes, at a minimum, details on the current fiscal year plus the following two years. The 2005 Budget provides details of planned revenue and expense from 2005-06 through to the 2008-09 fiscal year. In addition, this section outlines the major changes to the medium-term fiscal outlook from the one outlined in the 2004 Budget. Further details are included in Appendix 1, *Details on Ontario's Finances*.

**Medium-Term Deficit Reduction Plan**



Source: Ontario Ministry of Finance

The government's medium-term fiscal plan aims to reduce the Provincial deficit from the $5.5 billion recorded in 2003-04 and $3.0 billion in 2004-05 by setting steadily declining deficit targets of $2.8 billion in 2005-06, $2.4 billion in 2006-07, $1.5 billion in 2007-08, and achieving a balanced budget no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

### *Revenue: Details of Medium-Term Outlook*

Total revenues are forecast to increase $4.6 billion or 5.9 per cent in 2005-06. Between 2005-06 and 2008-09, total revenue is projected to grow at an average annual rate of 4.1 per cent, from $81.7 billion in 2005-06 to $92.2 billion in 2008-09. The revenue outlook in this Budget includes no new taxes or tax increases.

- **Taxation Revenue** is forecast to increase $2.3 billion or 4.1 per cent in 2005-06 and by $8.9 billion between 2005-06 and 2008-09, with annual growth averaging 4.9 per cent. Overall taxation revenue growth is consistent with the 4.8 per cent average annual growth of nominal gross domestic product over the 2005 to 2008 period. The taxation revenue forecast is based on the detailed Ontario economic outlook presented in the Appendix to Paper B, *Ontario's Economic Outlook*, and includes the impact of all revenue measures announced to date, such as the tax administration effectiveness initiatives announced in last year's Budget.
  - The **Personal Income Tax** revenue forecast is based on the economic outlook that calls for rising employment, wages and incomes in Ontario.

- **Retail Sales Tax revenue** growth projections are based on the forecast for increased household and business spending.
- **Corporations Tax** is the most volatile of Ontario's tax revenue sources. These revenues are projected to decline by 2.8 per cent in 2005-06, and grow modestly afterwards.
- The increase in **Ontario Health Premium** revenues in 2005-06 is due to the program being in place for the entire 2005-06 fiscal year, whereas it was only in effect for three-quarters of 2004-05. The Ontario Health Premium revenue forecast is largely based on the forecast for population and personal income growth.
- **Other Taxation Revenue** forecasts are based on their most closely associated economic drivers. For example, the Employer Health Tax forecast reflects the Ontario wages and salaries projection and the Land Transfer Tax forecast is consistent with the housing market outlook.

- **Transfers from the Government of Canada** are forecast to increase by $1.1 billion or 9.6 per cent in 2005-06, and by $0.8 billion between 2005-06 and 2008-09, with annual growth averaging 2.0 per cent. This forecast is based on current federal-provincial agreements, funding commitments and formulas for major health and social transfers. The outlook includes the increased health care funding arising from the September 2004 First Ministers' health agreement of $1.2 billion in 2005-06, $1.3 billion in 2006-07 and 2007-08, and the commitment to increase certain health transfers by six per cent per year thereafter until 2013-14. Additional Early Learning and Child Care funding announced in the 2005 federal budget of $0.3 billion in 2005-06 and 2006-07 and $0.5 billion per year thereafter until 2009-10 is included in the forecast. The decline in revenues in 2006-07 compared to 2005-06 is primarily due to the final revenue in 2005-06 from past federal Canada Health and Social Transfer Supplements and Medical Equipment Trust Funds.
- **Income from Government Enterprises** is forecast to increase by $0.5 billion or 14.4 per cent in 2005-06 and remain fairly flat between 2005-06 and 2008-09, with an average annual growth rate of 0.4 per cent. This forecast is based on information provided by business enterprises. Revenue increases in 2005-06 and 2006-07 are mainly due to projected increases in Ontario Power Generation Inc. (OPG) net income arising from the government's electricity reforms included in the *Electricity Restructuring Act, 2004*, including fair and stable prices for electricity provided by OPG. The decline in revenue in subsequent years is a result of a decline in OPG net income, which reflects the government's commitment to close coal-fired generating plants. Liquor Control Board of Ontario net income is forecast to rise over the forecast period based on increasing sales. Ontario Lottery and Gaming Corporation net income remains fairly flat over the forecast period due to continued competitive pressures on border casinos, and the expected continued strength of the Canadian dollar against the U.S. dollar.
- **Other Non-Tax Revenue** is forecast to increase $0.6 billion or 10.3 per cent in 2005-06 and by $0.7 billion between 2005-06 and 2008-09, with annual growth averaging 3.5 per cent. Other Non-Tax Revenue includes a variety of revenue sources, such as reimbursements to the Province for services; government licence, permit and other fees; revenue from sales and rentals; and Crown resource royalty payments to the Province. These revenues tend to be primarily influenced by demographic factors and revenue policies, but some cyclical factors are present such as royalties from Crown timber. Most of the revenue growth in 2005-06 is due to electricity reforms included in the *Electricity Restructuring Act, 2004*, which are expected to increase revenues from the sale

of electricity purchased from non-utility generators. The outlook includes roughly $0.4 billion per year in revenues arising from amortizing the elimination of the non-utility generator power purchase agreement liability over time. Improved management of revenue and accounts receivable is also expected to boost non-tax revenues over the forecast period.

## *Expense: Details of Medium-Term Outlook*

Over the medium term, total expense will rise from $83.5 billion in 2005-06 to $90.7 billion in 2008-09, an increase of $7.2 billion. Annual growth in total expense will average 2.8 per cent over this period, down from the 4.2 per cent growth rate projected for 2005-06.

A key part of the strategy to eliminate the structural deficit will be a disciplined approach to containing the growth in program spending to rates below that of taxation revenue. This Budget projects that between 2005-06 and 2008-09, program spending will grow by 3.1 per cent on average each year, much lower than the 4.9 per cent average annual growth in taxation revenue.

- **Health care** operating spending will grow by 5.9 per cent, or $1.8 billion, in 2005-06. Between 2005-06 and 2008-09, health care operating spending will increase by a total of $4.4 billion. In keeping with the government's change strategy, this funding will focus on promoting wellness, providing greater access to primary care, and reducing wait times for MRI/CT scans, cancer care, cataract and cardiac procedures, and hip and knee replacements.
- **Education** spending will grow by $0.7 billion in 2005-06 and by $1.2 billion between 2005-06 and 2008-09, reflecting the government's commitment to stabilize Ontario's education system, reduce elementary classroom sizes and improve student achievement.
- **Training, Colleges and Universities** will receive $4.8 billion in 2005-06, growing to $5.5 billion by 2008-09 to implement the Reaching Higher plan to increase access to quality postsecondary education and training.
- **Children's and Social Services** will receive an additional $0.5 billion in 2005-06, with a total operating budget growing to $10.3 billion by 2008-09, mainly to implement Best Start, contingent on federal funding for child care, and to renew the emergency energy assistance fund for low-income households. This increase will also allow the government to flow through incremental increases to the federal National Child Benefit Supplement to social assistance recipients for another year, delivering an additional $28 million in benefits in 2005-06.
- **Justice** sector spending will be maintained at approximately the 2004-05 funding level of $2.9 billion over the medium term.
- **Other Programs** will decline by $0.2 billion in 2005-06 and be held to 1.0 per cent average annual growth over the medium term, with most ministries' operating budgets flatlined or declining.

**Medium-Term Fiscal Plan and Outlook**
**($ Billions)**

| | Interim | Plan | Outlook | | |
|---|---|---|---|---|---|
| | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
| **Revenue** | | | | | |
| Taxation Revenue | | | | | |
| Personal Income Tax | 19.1 | 20.0 | 21.3 | 22.7 | 24.3 |
| Retail Sales Tax | 14.9 | 15.5 | 16.5 | 17.3 | 18.2 |
| Corporations Tax | 9.5 | 9.2 | 9.4 | 9.6 | 9.8 |
| Ontario Health Premium | 1.7 | 2.4 | 2.5 | 2.7 | 2.8 |
| All Other Taxes | 10.2 | 10.6 | 10.9 | 11.2 | 11.6 |
| Total Taxation Revenue | 55.5 | 57.7 | 60.6 | 63.4 | 66.7 |
| Government of Canada | 12.0 | 13.2 | 12.9 | 13.6 | 14.0 |
| Income from Government Enterprises | 3.5 | 4.0 | 4.2 | 4.1 | 4.1 |
| Other Non-Tax Revenue | 6.1 | 6.8 | 7.0 | 7.3 | 7.5 |
| **Total Revenue** | **77.1** | **81.7** | **84.8** | **88.5** | **92.2** |
| **Expense** | | | | | |
| Programs | | | | | |
| Health Care | 31.1 | 32.9 | 34.6 | 35.9 | 37.4 |
| Education (excludes Teachers' Pension Plan) | 10.5 | 11.3 | 11.7 | 12.2 | 12.4 |
| Training, Colleges and Universities | 4.3 | 4.8 | 5.1 | 5.4 | 5.5 |
| Children's and Social Services | 9.2 | 9.8 | 10.0 | 10.2 | 10.3 |
| Justice | 2.9 | 3.0 | 2.9 | 2.8 | 2.8 |
| Other Programs | 9.5 | 9.3 | 9.0 | 9.5 | 9.6 |
| **Total Programs** | **67.6** | **71.0** | **73.3** | **75.9** | **77.9** |
| Capital | 2.9 | 2.7 | 2.5 | 2.1 | 2.1 |
| Interest on Debt | 9.6 | 9.8 | 10.0 | 10.4 | 10.7 |
| **Total Expense** | **80.1** | **83.5** | **85.7** | **88.5** | **90.7** |
| **Surplus/(Deficit) Before Reserve** | **(3.0)** | **(1.8)** | **(0.9)** | **0.0** | **1.5** |
| **Reserve** | **-** | **1.0** | **1.5** | **1.5** | **1.5** |
| **Surplus/(Deficit)** | **(3.0)** | **(2.8)** | **(2.4)** | **(1.5)** | **0.0** |

Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

Capital investment will be $2.7 billion in 2005-06, $2.5 billion in 2006-07, and $2.1 billion in 2007-08 and 2008-09. This level of capital investment will support a five-year, $30 billion infrastructure plan. Planned levels of capital investment may be supplemented from the proceeds of strategic asset management initiatives.

Interest on debt costs are forecast to grow by $0.9 billion between 2005-06 and 2008-09, reflecting the government's deficit targets and professional and cost-effective debt management. In 2005-06, interest on debt costs will amount to roughly 12 per cent of total Provincial revenue and remain there until 2008-09.

### *Fiscal Prudence*

In addition to applying a disciplined approach to balancing strategic investments in key priority areas with a plan to eliminate the deficit, the government's medium-term fiscal plan also includes prudence in recognition of the risks inherent in any fiscal and economic forecast. As a result, reserves of $1.5 billion in 2006-07 and beyond have been included to protect against such unforeseen and adverse changes in the economic and fiscal outlook. These reserves are $0.5 billion higher than the $1.0 billion reserve included in 2005-06 to better reflect the risks and uncertain nature of medium-term fiscal projections. These reserves are also over and above the prudence built into the economic outlook on which the revenue projections for the Province are based.

The deficit will be eliminated no later than 2008-09, and a balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

## KEY CHANGES SINCE THE 2004 ONTARIO BUDGET

In the past year, since the release of the 2004 Ontario Budget, a number of key changes have occurred that have had an impact on the Province's fiscal outlook. These include changes in the medium-term economic outlook, ongoing pressures in health care and the development of a plan to revitalize Ontario's postsecondary education system as provided for in this Budget.

The following table provides an overview of the key changes to the medium-term fiscal outlook since the release of the 2004 Ontario Budget.

**Impact of Key Changes to the Medium-Term Deficit Targets**
**($ Billions)**

| | Plan | Outlook | |
|---|---|---|---|
| | 2005-06 | 2006-07 | 2007-08 |
| **Surplus/(Deficit) as per 2004 Budget** | **(2.1)** | **(1.5)** | **0.0** |
| **Key Revenue Changes Since 2004 Budget:** | | | |
| Taxation Revenue Changes | | | |
| Higher 2004-05 Taxation Revenue Base | 1.1 | 1.2 | 1.3 |
| Economic Growth Forecast | (1.0) | (1.1) | (1.3) |
| Revenue Initiatives | (0.1) | (0.1) | (0.1) |
| Net Taxation Revenue Change | 0.1 | - | (0.1) |
| First Ministers' Health Agreement | 1.2 | 1.3 | 1.3 |
| Additional Federal Early Learning and Child Care Funding | 0.3 | 0.3 | 0.5 |
| Other Revenue Changes | 0.3 | 0.6 | 0.8 |
| Total Revenue Changes | 1.8 | 2.3 | 2.4 |
| **Key Expense Changes Since 2004 Budget:** | | | |
| Postsecondary Education and Training | 0.5 | 0.8 | 1.0 |
| Additional Health Care Investments | 2.1 | 2.7 | 3.1 |
| Additional Education Investments (excludes Teachers' Pension Plan) | - | - | 0.2 |
| New Investments in Early Learning and Child Care* | 0.3 | 0.3 | 0.5 |
| All Other Expense Changes (Net)* | 1.2 | 0.6 | 0.3 |
| Interest on Debt | (1.0) | (1.1) | (1.0) |
| Total Expense Changes | 3.0 | 3.2 | 3.9 |
| Change in Reserve | (0.5) | - | - |
| Total Changes Since 2004 Budget | (0.7) | (0.9) | (1.5) |
| **2005 Budget Surplus/(Deficit)** | **(2.8)** | **(2.4)** | **(1.5)** |
| **Reserve** | 1.0 | 1.5 | 1.5 |
| **2005 Budget Surplus/(Deficit) Before Reserve** | **(1.8)** | **(0.9)** | **0.0** |

* Includes new operating and capital expense.

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

The 2004 Budget projected medium-term deficit targets of $2.1 billion in 2005-06, $1.5 billion in 2006-07 and a balanced budget in 2007-08.

Taking into account key revenue and expense changes since the 2004 Budget, including the initiatives announced as part of this Budget, the Provincial deficit is projected to decline from the $5.5 billion recorded in 2003-04 and $3.0 billion in 2004-05 to $2.8 billion in 2005-06, $2.4 billion in 2006-07, $1.5 billion in 2007-08, and achieving a balanced budget no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

Total revenue is higher throughout the medium term than originally projected in the 2004 Budget, primarily due to higher transfers from the Government of Canada and other non-taxation revenues. Major changes include:

- Higher **2004-05 taxation revenues**, primarily Corporations Tax revenues, resulting in a higher base upon which growth is applied, increasing the taxation revenue forecast from 2005-06 onwards.
- The current **economic growth forecast**—notably slower Ontario nominal gross domestic product (GDP) growth in 2005 (1.1 percentage points lower) and 2006 (0.6 percentage points lower)—has reduced the taxation revenue outlook from 2005-06 onwards.
- **Revenue initiatives** taken since the 2004 Budget (see Paper C, *Details of Revenue Measures*) have reduced the revenue outlook by $0.1 billion per year.
- The **net change in the taxation revenue** outlook, taking into account the higher 2004-05 revenue base, slower economic growth forecast and revenue initiatives, is a slightly higher level of revenues in 2005-06 ($0.1 billion), virtually no change in 2006-07 and a slight decrease in 2007-08 ($0.1 billion).
- The September 2004 **First Ministers' health agreement** increased revenues by $1.2 billion in 2005-06 and $1.3 billion in 2006-07 and 2007-08.
- Additional **early learning and child care** funding announced in the 2005 federal budget will increase revenues by $0.3 billion in 2005-06 and 2006-07, and by $0.5 billion in 2007-08.
- **Other revenue** changes mainly reflect amortizing the elimination of the non-utility generator power purchase agreement liability over time and improved management of non-tax revenues.

These increases in total revenue are offset by additional investments made in key Provincial programs, such as publicly funded education, postsecondary education and health care. While the government would have preferred to respond more quickly to the needs of the postsecondary education sector and infrastructure, the government chose to balance these required investments with disciplined fiscal planning in order to ensure responsible management of the Province's finances.

New planned investments since the 2004 Budget include:

- Additional funding to implement the **Reaching Higher plan** to enhance student financial assistance and improve access to quality postsecondary education and training.
- **Total health care operating spending** will be $3.1 billion higher in 2007-08 compared to what was projected in the 2004 Budget, largely as a result of the additional federal transfers arising from the September 2004 First Ministers' health agreement and the incremental funding for health

care announced as part of this Budget—for a total cumulative increase of $7.9 billion over three years.

- An additional $0.2 billion is being invested in 2007-08, beyond what was outlined in the 2004 Budget, to support fully the government's plan to revitalize **Ontario's publicly funded education system**. This investment will ensure the implementation of the government's goals for student achievement.
- An additional investment of $0.3 billion in 2005-06, growing to $0.5 billion by 2007-08, contingent on federal support, to provide the Province with revenue to implement the **Best Start early learning and child care initiative**.
- An additional $2.0 billion in spending will be provided to **other sectors** over the period from 2005-06 to 2007-08, including social and other programs that support various economic sectors of the province.

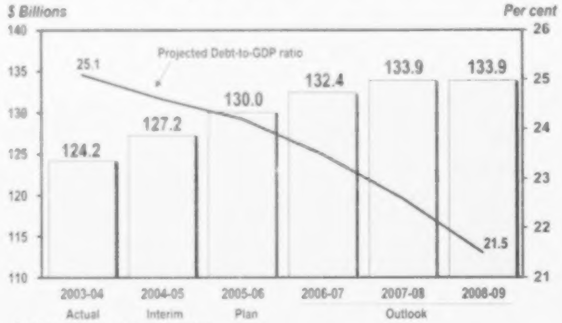
As a result of a $3.1 billion improvement in the forecast deficit for 2004-05 from $6.1 billion at the time of the 2004 Budget to the interim outlook of $3.0 billion in the 2005 Budget, forecast interest on debt costs are considerably lower over the medium term. These lower interest on debt costs are also the result of lower-than-forecast interest rates, and continued professional and cost-effective debt management.

In 2005-06, the reserve was also decreased by $0.5 billion from the $1.5 billion included in the 2004 Budget to its current level of $1.0 billion, the typical amount of caution included in the current budget year.

## PRUDENT DEBT-TO-GDP RATIOS

Another key component of the government's medium-term fiscal plan to restore responsible fiscal management to Ontario is the commitment to maintain a prudent level of Provincial debt (defined as accumulated deficit) relative to the size of Ontario's economy as measured by nominal gross domestic product (GDP). Ongoing debt accumulation can significantly limit the extent to which vital public services can be funded, as increasing debt charges "crowd out" funds available for spending on government priorities. Responsible fiscal management, therefore, needs to be long term and intergenerational in focus to ensure that future generations are not burdened with the cost of current overconsumption or inefficient delivery of government services.

**Ontario's Debt* and Projected Debt-to-GDP Ratio**



* Debt is defined as accumulated deficit.

Source: Ontario Ministry of Finance.

Consistent with the medium-term fiscal plan contained in this Budget, the Province's debt-to-GDP ratio is projected to decline from 25.1 per cent in 2003-04 to 21.5 per cent by 2008-09.

## $23 BILLION GAP

The Government of Ontario as well as third parties such as CIBC World Markets have identified a $23 billion gap between the amount Ontarians pay to the federal government in taxes and the amount they receive in federal programs and services.

The Province's determination to engage the federal government in addressing this fiscal gap is about investing in Ontario's economy. It is about a stronger Ontario for a stronger Canada. It is not about balancing Ontario's books more quickly than this Budget's fiscal plan projects.

# Section IV: Making Progress: Modernizing Government

The Ontario Government has been recognized as a leading-edge public administration, due to its ability to understand and respond to the needs of the population. Ontarians expect a great deal from their government and the government embraces this challenge. They expect the government to be focused on priorities, achieve the results that matter most to them, and be open, transparent and accountable in doing so. In addition, they expect programs and services to be well managed so that they are receiving excellent value for their tax dollars.

The government is constantly looking at ways to improve programs and services to ensure Ontarians receive the best return on their investment in public services.

At the same time, the Province needs to live within its means. The 2004 Budget included a plan to undertake a comprehensive review of the programs that the government delivers in order to ensure the long-term fiscal viability of the programs that matter most to Ontarians. This review process represents a disciplined effort to align medium-term budgeting with priorities and results. The government's focus is on modernizing and changing public programs and services to achieve long-term, cost-effective results, and to invest in and protect priority services such as health care and education.

The government's modernization plan is designed to achieve the following three objectives:

- **Making progress on program review savings targets**—achieve savings of $750 million in 2007-08.
- **Creating more efficient government**—provide higher-quality services that are delivered in an efficient and effective manner.
- **Controlling long-term costs**—meet growing public demands for improved health care, education and other key services at an affordable cost that is fiscally sustainable in the long run.

### *Making Progress on Program Review Savings Target*

In just one year, the government has implemented plans designed to achieve over half of the $750 million program review savings target for 2007-08, as set out in the 2004 Budget. The majority of these savings are from administrative and back-office services. Achieving this savings target is an important component of the government's plan to ensure long-term responsible management of the Province's finances.

Of the $750 million program review savings target for 2007-08, $350 million has been found in direct program savings and a further $57 million has been found through more efficient management of the Province's revenues.

Major areas of program savings by 2007-08 include the following:

- Overhauling the government's internal transactions and business support services, to improve processes and streamline purchasing practices, to reduce total procurement costs by 10 per cent by 2007-08 and to generate annual savings of $200 million when fully implemented. One example is the re-tendering of the government's contract for courier services, which will save approximately $2.5 million on courier charges alone.
- Helping government ministries trim their accommodation costs using a strategy that better aligns real estate needs with government priorities will save $50 million annually by 2007-08. This will be accomplished, for example, through improved management of realty assets, reduced space standards, and the retrofitting of government buildings to reduce energy consumption across the Ontario Public Service (OPS).
- Reducing information technology spending through better asset management, the consolidation of infrastructure and a rationalization of common services and applications across ministries, will save Ontarians $100 million annually by 2007-08. For example, greater sharing of information technology services and equipment across all ministries will lead to greater reuse of technology investments and a reduction in the overall number of computers required to deliver government programs and services. In addition, the number of computer servers throughout the OPS will be reduced by 20 to 40 per cent.

Other program review measures designed to improve the Province's business practices will generate a further $57 million in savings in 2007-08:

- These measures include better management of the Province's revenue and accounts receivable, increased use of electronic funds transfer, early payment discounts from suppliers, reductions in small value transactions, the use of new technologies and the implementation of new financial management mechanisms such as revolving accounts and special operating agencies.

A next step in modernizing government is the intent to update legislation governing the public service to embed the principles of accountability, transparency and delivery of results.

### *Delivering Efficient Government*

Reviewing government spending on a comprehensive and ongoing basis is what Ontarians should demand and expect. It is through this sort of scrutiny that the government will be able to achieve a balanced budget while ensuring that resources are aligned with priorities and program operations are efficient.

Central to that plan is the reality that the government must focus on what it does best, such as developing policy and legislation, establishing program and service standards, and assuring quality service. The Province should only be in the business of direct-service delivery when it can provide a service more efficiently than anyone else or there is a clear public interest served.

It is within this context that a comprehensive review of Provincial expenses will continue. This includes looking for ways to improve service for Ontarians and ensure efficiency. The review will focus on large growing programs and identify options to ensure these programs remain affordable, and to continue to look for ways to simplify government by co-ordinating and harmonizing with other levels of government.

The government is also reviewing its central operations to ensure that they are refocused to support the government's modernization plan. This review will mean a smaller, more integrated and strategic centre of government.

***Federal-Provincial Partnerships***

The Province is also seeking to form new strategic partnerships with the federal government in an effort to reduce overlap and duplication and thereby promote more efficient and cost-effective programs and services. The Province needs the federal government to commit to these strategic partnerships in order to make progress in closing the federal funding gap and to promote the economic prosperity of Ontario. Key strategies include the following:

- Working with the federal government to design a single system for collecting federal and Ontario corporate taxes that, if implemented, would improve service delivery and provide savings to taxpayers while maintaining Ontario's fiscal position.
- Working with the federal government to develop a co-ordinated labour-market training system to ensure that programs meet the evolving needs of Ontarians and working towards a fair share for Ontario's unemployed in Employment Insurance funding. New federal funding to close the gap between Ontario and the rest of Canada will expand existing labour-market training services and enable the creation of a seamless, integrated system in Ontario.
- Negotiating with the federal government and working towards a fair share in federal funding for settlement, integration and adult language training services to improve outcomes for Ontario's new Canadians. A new partnership with the federal government, which improves service delivery and narrows the funding gap, will help Ontario leverage talented newcomers into jobs and investment.
- Working with the federal government to strengthen and improve Ontario's meat inspection system and move to an integrated and seamless inspection system. Harmonization of meat safety standards and inspection will create a more efficient and harmonized system across the province.

At present, over 80 per cent of Provincial program spending is in the form of transfer payments to individuals and organizations. In 2004-05, Provincial program spending amounted to $67.6 billion, of which the seven largest transfer payment programs and three largest ministry-delivered programs accounted for almost two-thirds of the total.

**Major Areas of Provincial Program Spending**

| | 2004-05 Interim | |
|---|---|---|
| | **$ Billions** | **As a % of Total Program Spending** |
| **Seven Largest Transfer Payment Programs:** | | |
| Operation of Hospitals* | 11.9 | 17.5 |
| School Board Operating Grants | 10.0 | 14.8 |
| OHIP Payments to Physicians and Practitioners | 7.4 | 11.0 |
| Social Assistance Benefits | 4.0 | 6.0 |
| Drug Programs** | 3.3 | 4.8 |
| Colleges and University Operating Grants*** | 3.3 | 4.8 |
| Long-Term Care Homes | 2.5 | 3.7 |
| Total—Seven Largest Transfer Payment Programs | 42.3 | 62.6 |
| **Three Largest Ministry-Delivered Programs:** | | |
| Teachers' Pension Plan/Ontario Public Service Retirement Benefits | 0.7 | 1.1 |
| Ontario Provincial Police | 0.7 | 1.1 |
| Correctional Services | 0.6 | 0.9 |
| Total—Three Largest Ministry-Delivered Programs | 2.1 | 3.1 |
| **Total—Seven Largest Transfer Payment Programs and Three Largest Ministry-Delivered Programs** | **44.4** | **65.7** |
| All Other Program Spending | 23.2 | 34.3 |
| **Total Program Spending** | **67.6** | **100.0** |

* Includes one-time funding of $0.4 billion provided to hospitals in 2004-05.

** Includes drug programs delivered by the Ministry of Health and Long-Term Care and Ministry of Community and Social Services.

*** Includes base operating grants and special-purpose grants provided to postsecondary institutions.

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

The seven largest transfer payment programs and three largest ministry-delivered programs help support the important goals and priorities of the Province, such as:

- supporting the operation of 152 public hospital corporations on 228 sites, including over 40,000 nurses;
- supporting the public education of two million elementary and secondary school students provided by 120,000 teachers;
- paying for medical services provided by almost 22,000 physicians in Ontario, including 10,800 family doctors and 11,000 specialists;
- providing support to almost 194,000 Ontario Works cases and 226,000 Ontario Disability Support Program cases;
- funding for over 3,400 prescription drugs and drug products provided primarily to seniors, residents of long-term care homes and social assistance recipients;
- supporting over 300,000 full-time university students and more than 150,000 full-time college students through operating grants to colleges and universities;
- funding for more than 74,000 beds in almost 600 long-term care homes;
- co-sponsoring the pensions for teachers, and sponsoring retirement benefits (including pensions) for Ontario Public Service employees;
- providing funding for over 7,500 Ontario Provincial Police staff to support the enforcement of safety and security in Ontario's communities; and
- funding for 31 correctional institutions, which house on average almost 7,800 adult offenders at any given time, plus probation, parole and conditional sentence supervision of 56,000 adults serving their sentences in communities.

To make more efficient use of public tax dollars and help broader public-sector (BPS) partners meet their commitments, the Province is supporting modernization efforts across the BPS. The government will ensure that the BPS delivers vital programs and services in the most efficient and effective way and that taxpayers get the best value for the services they care about most.

The government will use this ongoing review to improve its performance in providing timely, efficient and effective service delivery and to seek strategic opportunities for better federal-provincial co-ordination to reduce overlap and duplication.

### *Controlling Long-Term Costs*

Helping the government's BPS partners manage the rate of growth in their spending will also help refocus investment in public priorities over the long term.

OntarioBuys was created by the Ontario Government in May 2004 with a three-year mandate to facilitate and accelerate the implementation of integrated supply chain leading practices by Ontario's BPS.

Over the past 12 months, scores of Ontario BPS institutions have responded, aware that changing their supply chains presents a rare opportunity to reduce costs and improve service levels.

In the hospital sector, for example, it is estimated that integrated supply chain leading practices have the potential to:

- redirect over $100 million per year of hospital supply chain costs towards front-line care; and
- free up staff time towards improved service levels, including improved patient care.

The Hospital eSupply Chain Project is one of several initiatives that OntarioBuys supports.

Six leading health care organizations—representing 46 hospital facilities—will be automating currently manual supply chain functions through the use of eCommerce and other proven technologies. OntarioBuys' investment will allow these hospitals to redirect more than $25 million over five years away from administrative functions and towards patient services.

Hospital staff currently spend valuable time on supply chain issues and inventory management. Specific examples of the impact of the Hospital eSupply Chain Project include:

- Reduced clinical reliance on inefficient paper-based processes, freeing up time for patient care.
- Improved back-office processes such as integrated order requisition and approval and electronic invoice settlement, allowing purchasing department staff to spend less time pushing paperwork and more time supporting clinicians.
- Regional integration and consolidation of supply chain processes, allowing hospitals to even more effectively use their bulk buying power to reduce the cost of the $2 billion in goods and services they purchase annually.

The Hospital eSupply Chain Project is an example of how OntarioBuys is helping hospitals reduce their operating costs, improve service levels and support the delivery of better patient care through the adoption of integrated supply chain leading practices.

The government will continue to support its partners in the BPS in finding better and more efficient ways to deliver vital public services and equip them with the tools to do so. Important opportunities for efficiencies are being pursued in looking for consolidated purchasing and new approaches to providing internal administrative and information technology services.

The Province is also supporting modernization through small, transfer payment projects that will get tangible results and can act as a catalyst for broad reform.

For example, children's aid societies (CASs) work to meet the urgent needs of children who need care. More consistent and reliable information about children in the system would improve the effectiveness of this important work. The government will provide the Ontario Association of Children's Aid Societies with up to $12 million over two years to develop and pilot a single information system that will:

- make crucial information about children at risk immediately available to agency staff;
- provide CASs with online access to a province-wide adoption-matching system; and
- streamline administration.

Finally, as of April 1, 2005, the Province's Auditor General has the legislated authority to carry out value-for-money audits of organizations that deliver front-line services, including those in health and education. This expanded mandate should help all areas of the public sector manage the Province's finances responsibly. More detailed information can be found in Appendix 2, *Transparency and Accountability*.

# Conclusion

The government is making significant progress in promoting Success for Students, Better Health for Ontarians, and revitalizing the postsecondary education system to support better jobs and a new generation of economic growth. The government is moving forward on the priorities of Ontarians—providing more resources for the Province's publicly funded schools, making major new investments in the postsecondary education and training system, and doing more to help people stay healthy, caring for them if they become sick, and doing what is necessary to ensure medicare is sustained for generations to come.

Through these strategic investments and a disciplined approach to fiscal planning, the Province's books will be in balance no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.

Responsible fiscal management is about more than just balancing the budget. It is about modernizing, building sustainable public services, and ensuring that programs are delivering their desired outcomes and results in the most cost-effective and efficient manner. To this end, the government performed a rigorous review of its programs and services, and has found more than half of the program review target for 2007-08. More savings are to come.

Enhanced federal support can play a vital role in complementing this fiscal plan and creating the kind of Ontario that the government, and Ontarians in general, want—better health, high-quality education, and modern infrastructure.

It will take a focused and disciplined effort by all of government and its broader public-sector partners to modernize their activities, put key public services on a sustainable basis, and promote a new generation of economic growth.

More detailed fiscal and financial information can be found in Appendix 1, *Details on Ontario's Finances*.

# PAPER A: APPENDIX 1

Details on Ontario's Finances

# Introduction

Paper A, *Investing in People—Managing Ontario's Finances*, provided an update on the government's progress on managing change and delivering results, the medium-term fiscal plan, as well as details on how the structural deficit will be eliminated.

This appendix provides details on Ontario's recent fiscal performance and other financial information, specifically:

- **Section I**: Ontario's Interim Performance for 2004-05;
- **Section II**: Support from Gaming for Health Care, the Ontario Trillium Foundation and Communities;
- **Section III**: Support for Investments for Healthier Ontarians;
- **Section IV**: Potential Risks, Cost Drivers and Contingent Liabilities; and
- **Section V**: Key Financial Tables and Graphs.

## Section I: Ontario's Interim Performance for 2004-05

The 2004-05 interim outlook forecasts a deficit of $2,993 million, an in-year improvement of $3,127 million from the $6,120 million deficit projected in the 2004 Budget. This in-year comparison excludes the one-time revenue gain associated with eliminating the liability for non-utility generator power purchase agreements originally assumed in the 2004 Budget. The 2004-05 interim outlook also reflects the September 2004 First Ministers' health agreement and elimination of the reserve at year-end, as it was not required.

The Ontario Electricity Financial Corporation (OEFC) began receiving actual contract prices for power from ratepayers effective January 1, 2005, and will no longer incur losses on these power purchase contracts with non-utility generators as a result of legislated reforms to the electricity market. These reforms have effectively eliminated the liability associated with these contracts.

**2004-05 In-Year Fiscal Performance**
**($ Millions)**

| | Budget Plan | Interim | In-Year Change |
|---|---|---|---|
| **Revenue*** | 74,479 | 77,137 | 2,658 |
| **Expense** | | | |
| Programs | 66,695 | 67,622 | 927 |
| Capital | 2,575 | 2,899 | 324 |
| Interest on Debt | 10,329 | 9,609 | (720) |
| Total Expense | 79,599 | 80,130 | 531 |
| Reserve | 1,000 | - | (1,000) |
| **Surplus/(Deficit)** | **(6,120)** | **(2,993)** | **3,127** |

* Revenue as per 2004-05 Budget Plan excluding one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

- Total revenue is estimated to be $2,658 million above the 2004-05 Budget Plan. This is mainly due to higher Corporations Tax revenues and transfer payments from the Government of Canada.
- Total expense increased in-year by $531 million above the 2004-05 Budget Plan, mainly due to higher levels of spending for health care resulting primarily from the First Ministers' health agreement, as well as increased assistance to farmers, partially offset by lower-than-forecast interest on debt costs.

- The $1 billion reserve included in the 2004-05 Budget Plan, to protect against unexpected and adverse changes in the economic and fiscal outlook, was not required—consistent with the role of the reserve in prudent budgeting practices.

## IN-YEAR REVENUE PERFORMANCE

Total revenue is estimated at $77,137 million, a net increase of $2,658 million from the 2004-05 Budget Plan forecast. This is mainly due to higher Corporations Tax revenues and transfer payments from the Government of Canada.

**Summary of In-Year Changes to Revenue in 2004-05**
**($ Millions)**

| | | Interim 2004-05* |
|---|---|---|
| **Taxation Revenue** | | |
| Personal Income Tax | 274 | |
| Retail Sales Tax | (133) | |
| Corporations Tax | 1,193 | |
| Gasoline Tax | (45) | |
| Land Transfer Tax | 129 | |
| All Other Taxes | 47 | |
| | | 1,465 |
| **Government of Canada** | | |
| First Ministers' Health Agreement | 824 | |
| All Other Government of Canada | 402 | |
| | | 1,226 |
| **Income from Government Enterprises** | | |
| Ontario Lottery and Gaming Corporation | (147) | |
| Hydro Successor Corporations | 67 | |
| All Other Government Enterprises | 30 | |
| | | (50) |
| **Other Non-Tax Revenue** | | 17 |
| **Total Revenue Changes** | | **2,658** |

* Revenue as per 2004-05 Budget Plan excluding one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

## *Revenue Changes*

- Personal Income Tax revenues are currently estimated to be $274 million above the 2004-05 Budget Plan forecast due to stronger 2004 wages and salaries growth, higher 2003 tax assessments and one-time revenue arising from a federal recalculation of tax entitlements for 1995 to 2003.
- Retail Sales Tax revenues were $133 million below projection due to weaker 2004 consumer durable goods expenditure, notably low levels of vehicle sales during 2004.
- Corporations Tax revenues are currently estimated to be $1,193 million above the 2004-05 Budget Plan forecast, primarily due to stronger corporate profit growth in 2004 and an adjustment of $391 million recorded in 2004-05 due to stronger net receipts in respect of past years than estimated in the 2003-04 Public Accounts.
- Gasoline Tax revenues were $45 million below the 2004-05 Budget Plan projection due to reduced consumption corresponding to higher pump prices for gasoline.
- Land Transfer Tax revenues were $129 million above the 2004-05 Budget Plan forecast due to continued high levels of housing resales and house price increases.
- The net change in other taxation revenues combined was $47 million above the 2004-05 Budget Plan forecast.
- The September 2004 First Ministers' health agreement increased transfers from the Government of Canada by $824 million.
- All other transfers from the Government of Canada combined were $402 million above projection, mainly due to higher federal transfers to Agricorp for income stabilization and other agricultural support programs.
- Ontario Lottery and Gaming Corporation net income was $147 million below projection, mainly due to lower earnings from the border casinos. Business at border casinos continued to be adversely affected by the decreased value of the U.S. dollar, competition from U.S. facilities and perceived border-crossing slowdowns.
- Combined net income of Ontario Power Generation Inc. (OPG) and Hydro One Inc. (HOI) was $67 million above the 2004-05 Budget Plan forecast. This is due to higher HOI net income, primarily the result of an Ontario Energy Board decision to allow regulatory recovery of low-voltage service costs.
- The combined net income of all other government enterprises was $30 million above projection, mainly due to higher Liquor Control Board of Ontario net income.
- The net change in all other non-tax revenues combined was $17 million above the 2004-05 Budget Plan forecast.

## IN-YEAR EXPENSE PERFORMANCE

Total expense for 2004-05, at $80,130 million, is $531 million above the level projected in the 2004-05 Budget Plan. This increase was mainly due to increased in-year funding for health care, higher payments to farmers for agricultural support and increased capital spending, partially offset by lower-than-forecast interest on debt costs.

**Summary of In-Year Expense Changes in 2004-05**
**($ Millions)**

| | | Interim 2004-05 |
|---|---|---|
| **Program Expense Changes:** | | |
| Health—increased spending to reflect the First Ministers' health agreement | 824 | |
| Agricorp—increased payments to farmers for production insurance and income stabilization programs | 369 | |
| Agriculture Sector Support—grain and oilseed producer support and other assistance | 259 | |
| Graduate Education—endowment to create new fellowships for graduate students | 100 | |
| Power Purchases—lower volumes of electricity purchased than expected | (96) | |
| Education—transfer of funds to capital expense for technological education equipment, program start-up delays and higher-than-forecast school board revenues from education property taxes | (97) | |
| All Other (Net) | (432) | |
| **Total Program Expense Changes** | | 927 |
| **Capital Expense Changes:** | | |
| Postsecondary Institutions—funding for repair and equipment upgrades | 250 | |
| Hospitals—Provincial share of capital costs for 19 projects | 184 | |
| All Other (Net) | (110) | |
| **Total Capital Expense Changes** | | 324 |
| **Interest on Debt Change** | | (720) |
| **Total In-Year Expense Changes** | | 531 |

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

## Operating Expense Changes

- As a result of the First Ministers' health agreement, the Ministry of Health and Long-Term Care received an additional $824 million in-year. Of the additional $824 million, $194 million was allocated for the purchase of medical equipment. The remaining $630 million was used primarily for investments to reduce wait times and improve access to physicians.
- An additional $369 million was attributed to the Ministry of Agriculture and Food for Agricorp to provide increased funding for income stabilization and production insurance, fully offset from federal revenues.
- The Ministry of Agriculture and Food received an additional $259 million in-year for grain and oilseed producer support, bovine spongiform encephalopathy (BSE) support, income stabilization and production insurance, and other assistance.
- An additional $100 million was provided in-year to the Ministry of Training, Colleges and Universities to allow universities to establish endowments that will provide fellowships to outstanding graduate students.
- In-year savings of $96 million for power purchases were realized mainly due to lower-than-expected volumes of electricity purchased by the Ontario Electricity Financial Corporation from non-utility generators.
- Ministry of Education spending was $97 million lower in-year mainly due to a transfer from operating to capital expense to provide additional funding for technological education equipment in high schools, program start-up delays and a decline in ministry expense to offset higher-than-forecast school board revenues from education property taxes.
- All other net changes in operating spending in-year amount to a reduction of $432 million. This decrease is mainly due to drawdowns from the Contingency Fund to accommodate in-year increases for programs such as Agriculture Sector Support and Graduate Education; as well as ministry underspending in various programs across government that typically occur at year-end.
- Interest on debt costs were $720 million below the 2004-05 Budget Plan due to lower-than-forecast interest rates and continued professional and cost-effective debt management.

## Capital Expense Changes

- An additional $250 million was provided to the Ministry of Training, Colleges and Universities to help colleges and universities address the cost of deferred building maintenance and upgrade equipment.
- The Ministry of Health and Long-Term Care received an additional $184 million in-year to cover the Provincial share of 19 hospital capital projects.
- All other net changes in capital spending in-year amounted to a reduction of $110 million, mainly due to underspending in various programs such as the Northern Ontario Heritage Fund and the Canada-Ontario Municipal Rural Infrastructure Program.

## STATUS OF THE 2004-05 CHANGE FUND

The 2004-05 Budget Plan included a $1.0 billion Change Fund to support the government's plans to change and improve Ontario's public services. The Fund provided assistance for projects that rationalized or better integrated existing programs and services, put in place new systems or processes to reduce long-term costs, or mitigated the demand for services over the long run.

The following table highlights key investments funded through the Change Fund in 2004-05.

**Change Fund Investments**
**($ Millions)**

| | | Interim 2004-05 |
|---|---|---|
| **ANNOUNCED IN THE 2004 BUDGET:** | | |
| **Investments for Health Care** | | |
| Community Health Services—home care and community mental health | 140 | |
| Family Health Teams | 111 | |
| e-Health Initiatives | 78 | |
| Other Projects (including wait lists and workplace safety) | 280 | |
| | | 609 |
| **Other Investments** | | |
| ServiceOntario Enhancement | 27 | |
| College Stabilization | 25 | |
| Nutrient Management Financial Assistance Program | 5 | |
| All Other | 6 | |
| | | 63 |
| **PROJECTS APPROVED IN-YEAR:** | | |
| Community Reinvestment Fund—One-Time Transition Funding | 200 | |
| Teacher Development Accounts | 60 | |
| All Other | 8 | |
| | | 268 |
| **Total Change Fund Investments** | | **940** |

Source: Ontario Ministry of Finance.

The 2004 Budget reported details on key investments totalling $672 million, including $609 million that assisted the Ministry of Health and Long-Term Care with its change agenda and $63 million for other investments.

New investments of $268 million, approved and funded in-year from the Change Fund, include:

- Community Reinvestment Fund—One-Time Transition Funding: $200 million was approved to facilitate the transition from the former Community Reinvestment Fund as the Province's main funding model for municipalities, to the Ontario Municipal Partnership Fund (OMPF) (more details are provided in Paper B, *Achieving Our Potential: Progress Towards a New Generation of Economic Growth*);
- Ministry of Education: $60 million was approved for Teacher Development Accounts to provide one-time funding to offset some of the costs that teachers now bear for their professional development, and to support school board collective bargaining; and
- All other approvals totalling $8 million included minor projects supporting transformation in Management Board Secretariat and the Ministries of Children and Youth Services, Northern Development and Mines, and Transportation.

The remaining $60 million in unallocated funds was applied to reduce the Province's 2004-05 deficit.

# Section II: Support from Gaming for Health Care, the Ontario Trillium Foundation and Communities

Provincial proceeds from gaming activities continue to support Provincial priorities, including the operation of hospitals, charities, communities and the agricultural sector.

**Support for Health Care, Charities, and Problem Gambling and Related Programs**
**($ Millions)**

| | Interim<br>2004-05 | Plan<br>2005-06 |
|---|---|---|
| **Lotteries, Charity Casinos and Slot Machines at Racetracks Revenue** | | |
| Operation of Hospitals | 1,505 | 1,507 |
| Ontario Trillium Foundation | 95 | 100 |
| Problem Gambling and Related Programs | 36 | 36 |
| **Commercial Casinos Revenue** | | |
| General Government Priorities | 334 | 298 |
| **Total** | **1,970** | **1,941** |

Sources: Ontario Ministry of Economic Development and Trade and Ontario Ministry of Finance.

## *Revenue from Lotteries, Charity Casinos and Slot Machines at Racetracks*

The *Ontario Lottery and Gaming Corporation Act, 1999* requires that net Provincial revenue generated from lotteries, charity casinos and racetrack slot machines support services such as the operation of hospitals, problem gambling and related programs, and funding for charitable organizations through the Ontario Trillium Foundation.

- In 2005-06, it is estimated that $1,507 million in net revenue from lotteries, charity casinos and slot machines at racetracks will be applied to support the operation of hospitals.
- The Ontario Trillium Foundation has become one of Canada's largest grant-making foundations. In 2005-06, the Ontario Trillium Foundation will be provided with $100 million to help build strong and healthy communities by contributing to charitable and not-for-profit organizations.
- Two per cent of gross slot machine revenue, estimated at $36 million for 2005-06, is allocated to programs that support problem gambling and related treatment, prevention and research programs.

### *Benefits from Commercial Casinos*

- In 2005-06, net Provincial revenue from commercial casinos estimated at $298 million will be used to support general government priorities including health care and education.
- Since the commencement of commercial casino operations, 27,000 direct and indirect jobs have been created in Ontario. Commercial casino operations and the additional tourists they attract contribute an estimated $2.4 billion annually to the Ontario economy.

### *Other Beneficiaries of Charity Casinos and Slot Machines at Racetracks*

**Support for the Agricultural Sector and Municipalities***
**($ Millions)**

| | Interim 2004-05 | Plan 2005-06 |
|---|---|---|
| Agricultural Sector | 301 | 312 |
| Municipalities | 75 | 78 |
| **Total** | **376** | **390** |

* The agricultural sector's share of racetrack slot machine revenue and municipalities' share of slot machine revenue from charity casinos or racetrack slot facilities is received directly from the Ontario Lottery and Gaming Corporation.

Source: Ontario Ministry of Economic Development and Trade.

- Twenty per cent of gross revenue from slot machines at racetracks is provided to promote the economic growth of the horse-racing industry. Since 1998, this initiative has provided over $1.4 billion to Ontario's horse-racing industry, a key component of the Province's agricultural sector. For 2005-06, additional support is estimated at $312 million.
- A portion of gross slot machine revenue estimated at $78 million in 2005-06 will be provided to municipalities that host charity casinos and slot operations at racetracks, to help offset local infrastructure and service costs.

## Section III: Support for Investments for Healthier Ontarians

The government's priority of achieving Better Health for Ontarians extends beyond the immediate programs and services funded by the Ministry of Health and Long-Term Care. Programs and services that support Better Health are also delivered through such ministries as Children and Youth Services; Community and Social Services; Training, Colleges and Universities; and Tourism and Recreation.

**Year-over-Year Increases in Programs Contributing to Better Health ($ Millions)**

| | Increase 2005-06 | |
|---|---|---|
| Ministry of Health and Long-Term Care: | | |
| Hospitals—will provide 53,200 additional MRI exams from nine new or upgraded machines and increased hours of operation; almost 2,900 more cancer surgeries; 14,000 more cataract and almost 7,000 more cardiac procedures; and over 4,300 additional hip and knee joint replacements this year | 504 | |
| OHIP—establishing 52 Family Health Teams and providing funding for the agreement with the Ontario Medical Association | 335 | |
| Ontario Drug Programs—accommodates the growing number of seniors, aging of the population and funding of new drugs | 319 | |
| Home Care, Community and Mental Health Services—expanding home care to almost 50,000 additional Ontarians, including end-of-life care for 4,300 people, and supporting almost 34,000 additional mental health patients in their communities | 292 | |
| Long-Term Care Homes—enhancing the quality of care provided to over 74,000 residents of long-term care homes by funding 2,000 additional staff, including 600 full-time nurses | 264 | |
| Public Health and Other—primarily to improve capacity to manage infectious disease control; increase Provincial share of public health unit costs to 65 per cent in January 2006; and enhance public education to help motivate smokers to quit and provide them with support through the process | 122 | |
| Total Ministry of Health and Long-Term Care | | 1,836 |
| Ministry of Children and Youth Services: growth in spending on Children's Mental Health, Children's Treatment Centres, and Healthy Babies, Healthy Children programs | | 46 |
| Ministry of Community and Social Services: Ontario Drug Benefit Plan utilization growth for Ontario Works and Ontario Disability Support Program recipients | | 38 |
| Ministry of Training, Colleges and Universities: increased enrolment in medical schools and collaborative nursing education | | 44 |
| Ministry of Tourism and Recreation: promotion of physical activity | | 3 |
| **Total Increase in Funding** | | **1,967** |

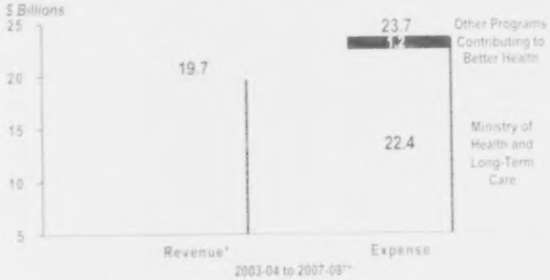
Sources: Ontario Ministry of Finance.

In 2005-06, the Ministry of Health and Long-Term Care will spend $1,836 million more than in the previous year – an amount that exceeds the additional $1,787 million in revenue that will be generated this year by funding from the federal government to support health care and the Ontario Health Premium. If all spending on the broader determinants of health is considered, the Province will be spending $1,967 million more in 2005-06 than in 2004-05.

### *Health-Related Revenues and Expense*

By 2007-08, the Province will be investing a cumulative total of $23.7 billion in Better Health. In support of this investment, the Province has several key sources of revenue dedicated to funding health-related initiatives. By 2007-08, the overall cumulative total revenue from the Ontario Health Premium and federal transfers to support health care will amount to $19.7 billion.

**Cumulative Change in Health-Related Revenues and Expense by 2007-08**



*Includes transfers from the federal government and the Ontario Health Premium.
**Cumulative change by 2007-08 compared to 2003-04.
Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

It should be noted that all health-related revenues contribute only a portion of total Ministry of Health and Long-Term Care operating costs. In 2005-06, expected health-related revenues including federal transfer payments, Employer Health Tax, Ontario Health Premium and net proceeds from the Ontario Lottery and Gaming Corporation are expected to amount to $16.3 billion, or only about 50 per cent of the $32.9 billion required for the Ministry of Health and Long-Term Care this year.

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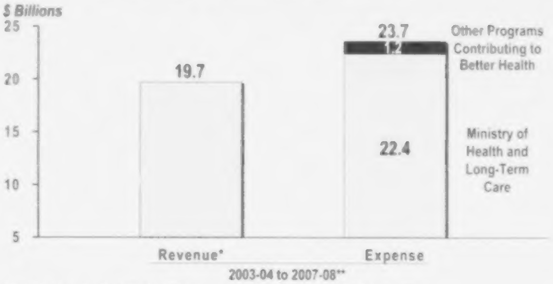
**Cumulative Change in Health-Related Revenues and Expense by 2007-08**



*Includes transfers from the federal government and the Ontario Health Premium only

**Cumulative change by 2007-08 compared to 2003-04

Note: Numbers may not add due to rounding

*Source:* Ontario Ministry of Finance

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# Section IV: Potential Risks, Cost Drivers and Contingent Liabilities

As required by the *Fiscal Transparency and Accountability Act, 2004*, this section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions, program demands or the materialization of liabilities. It should be cautioned that these sensitivities and risks, while useful, are only guidelines and can vary depending on the nature and composition of potential risks and liabilities.

## THE ONTARIO ECONOMY AND PROVINCIAL REVENUES

A growing economy with rising incomes, corporate profits and consumer spending generates higher revenues to pay for public services. Taxation revenues comprise the largest category of Provincial revenue. Of the total $81.7 billion in revenues forecast for 2005-06, $57.7 billion or about 71 per cent is expected to come from taxation revenues. Eliminating the structural deficit will require the close alignment of spending growth with growth in tax revenues. Three revenue sources within this category—Personal Income Tax, Retail Sales Tax and Corporations Tax—account for about 55 per cent of total revenues. However, inherent in any multi-year forecast is uncertainty about the future, making cautious and prudent planning a critical element of any deficit-reduction plan.

The economic assumptions on which the revenue projections are based are described in the Appendix to Paper B, *Ontario's Economic Outlook*.

**Selected Economic and Revenue Risks and Sensitivities**

| Item/Key Components | 2005-06 Assumption | 2005-06 Sensitivities |
|---|---|---|
| **Total Revenues** | | |
| - Real GDP | 2.0 per cent growth in 2005 | $615 million revenue change for each percentage point change in real GDP growth. Can vary significantly depending on composition and source of changes in GDP growth. |
| - GDP Deflator | 1.9 per cent increase in 2005 | |
| - Canadian Interest Rates | 2.6 per cent three-month Treasury Bill rate in 2005 | Between $60 million and $310 million revenue change in the opposite direction for each percentage point change in interest rates. |
| - U.S. Real GDP | 3.4 per cent growth in 2005 | Between $185 million and $430 million revenue change for each percentage point change in U.S. real GDP growth. |
| - Canadian Dollar Exchange Rate | 82.8 cents US in 2005 | Between $25 million and $110 million revenue change in the opposite direction for each one cent change in the Canadian dollar exchange rate. |

**Selected Economic and Revenue Risks and Sensitivities**

| Item/Key Components | 2005-06 Assumption | 2005-06 Sensitivities |
|---|---|---|
| **Total Taxation Revenues** | | |
| - Revenue Base[1] | 3.5 per cent growth in 2005-06 | $550 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly depending on composition and source of changes in GDP growth. |
| - Nominal GDP | 3.9 per cent growth in 2005 | |
| **Personal Income Tax Revenues** | | |
| - Revenue Base | 5.2 per cent growth in 2005-06 | |
| Key Economic Assumptions | | |
| - Wages and Salaries | 3.6 per cent growth in 2005 | $220 million revenue change for each percentage point change in wages and salaries growth. |
| - Employment | 1.0 per cent growth in 2005 | |
| - Unincorporated Business Income | 4.1 per cent growth in 2005 | |
| Key Revenue Assumptions | | |
| - Net Capital Gains Income | 3.9 per cent growth in 2005 | $3 million revenue change for each percentage point change in net capital gains income growth. |
| - RRSP Deductions | 4.4 per cent growth in 2005 | $14 million revenue change in the opposite direction for each percentage point change in RRSP deductions growth. |
| - 2004 Tax-Year Assessments | $18.8 billion | $190 million revenue change for each percentage point change in 2004 Personal Income Tax assessments.[2] |
| **Retail Sales Tax Revenues** | | |
| - Revenue Base | 3.6 per cent growth in 2005-06 | |
| Includes: | | |
| - Taxable Household Spending | 3.1 per cent growth in 2005-06 | |
| - Other Taxable Spending | 4.2 per cent growth in 2005-06 | |
| Key Economic Assumptions | | |
| - Retail Sales | 4.0 per cent growth in 2005 | |
| - Nominal Consumption Expenditure | 4.5 per cent growth in 2005 | $90 million revenue change for each percentage point change in nominal consumption expenditure growth. |

**Selected Economic and Revenue Risks and Sensitivities**

| Item/Key Components | 2005-06 Assumption | 2005-06 Sensitivities |
|---|---|---|
| **Corporations Tax Revenues** | | |
| - Revenue Base | 1.2 per cent growth in 2005-06 | |
| - Corporate Profits | 3.0 per cent growth in 2005 | $65 million revenue change for each percentage point change in pre-tax corporate profit growth. |
| - 2004-05 Tax Assessment Refunds[3] | $1.4 billion payable in 2005-06 | $14 million revenue change in the opposite direction for each percentage point change in 2004-05 refunds. |
| - 2004-05 Tax Payments Upon Filing | $0.6 billion receivable in 2005-06 | $6 million revenue change for each percentage point change in 2004-05 payments upon filing or assessment payments. |
| - 2004-05 Tax Assessment Payments | $0.6 billion receivable in 2005-06 | |
| **Employer Health Tax Revenues** | | |
| - Revenue Base | 3.0 per cent growth in 2005-06 | |
| - Wages and Salaries | 3.6 per cent growth in 2005 | $30 million revenue change for each percentage point change in wages and salaries growth. |
| **Ontario Health Premium Revenues** | | |
| - Revenue Base | 3.9 per cent growth in 2005-06 | |
| - Personal Income | 3.8 per cent growth in 2005 | $20 million revenue change for each percentage point change in personal income growth. |
| **Gasoline Tax Revenues** | | |
| - Revenue Base | 1.0 per cent growth in 2005-06 | |
| - Gasoline Pump Prices | 82 cents per litre | $5 million revenue change in the opposite direction for each cent per litre change in gasoline pump prices. |
| **Fuel Tax Revenues** | | |
| - Revenue Base | 2.1 per cent growth in 2005-06 | |
| - Real GDP | 2.0 per cent growth in 2005 | $10 million revenue change for each percentage point change in real GDP growth. |

**Selected Economic and Revenue Risks and Sensitivities**

| Item/Key Components | 2005-06 Assumption | 2005-06 Sensitivities |
|---|---|---|
| **Land Transfer Tax Revenues** | | |
| - Revenue Base | 0.4 per cent decline in 2005-06 | |
| - Housing Resales | 3.7 per cent decline in 2005 | $10 million revenue change for each percentage point change in both the number and prices of housing resales. |
| - Resale Prices | 1.1 per cent growth in 2005 | |
| **Health and Social Transfers** | | |
| - Canada-wide Revenue Base | $27.2 billion in 2005-06 | |
| - Ontario Revenue Share | 37.3 per cent in 2005-06 | |
| - Ontario Population Share | 38.9 per cent in 2005-06 | $40 million revenue change for each tenth of a percentage point change in population share. |
| - Ontario Basic Federal PIT Share | 44.3 per cent in 2005-06 | $10 million revenue change in the opposite direction for each tenth of a percentage point change in Basic Federal Personal Income Tax base share. |

1. Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.
2. Ontario 2004 Personal Income Tax is a forecast estimate because 2004 tax returns are currently being assessed by the Canada Revenue Agency.
3. Corporations Tax refunds arising during 2004-05 are still subject to considerable uncertainty because a very high proportion of corporations have until June 30, 2005 to file their 2004 tax returns.

## EXPENSE RISKS AND SENSITIVITIES

Many programs delivered by the Province are subject to potential risks and cost drivers such as utilization growth or enrolment and caseload changes. The following sensitivities are based on expense averages for key program areas and might change depending on the nature and composition of the potential risk.

**Selected Expense Risks and Sensitivities**

| Program/Sector | 2005-06 Assumption | 2005-06 Sensitivities |
|---|---|---|
| Health | Annual growth of 5.9 per cent | One per cent change in health: $329 million. |
| Hospitals | Annual growth of 4.7 per cent | One per cent change in hospital funding: $120 million. |
| Drug Programs | Annual growth of 12 per cent (seniors) | One per cent change in utilization of all drug programs: $36 million (seniors and social assistance recipients). |
| Home Care/Community Services | Over 15.5 million hours of homemaking and support services; 8.5 million nursing and professional visits | One per cent change in hours of homemaking and support services: $4 million.<br>One per cent change in nursing and professional visits: $6 million. |
| Long-Term Care Homes | More than 74,000 long-term care home beds | Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care home is $36,000. One per cent change in number of beds: $27 million. |
| Elementary and Secondary Schools* | Almost two million average daily pupil enrolment | One per cent enrolment change: $160 million. |
| College Students | 151,000 full-time students | One per cent enrolment change: $7 million. |
| University Students | 280,000 full-time undergraduate students | One per cent enrolment change: $19 million. |
| Ontario Works* | 194,000 average annual caseload | One per cent caseload change: $15 million. |
| Ontario Disability Support Program* | 226,000 average annual caseload | One per cent caseload change: $23 million. |
| Correctional System | 2.8 million adult inmate days per year | Average cost $155 per inmate per day.<br>One per cent change in inmate days: $4 million. |
| Interest on Debt | Average cost of borrowing is forecast to be approximately 5.4 per cent. | The impact of a 100 basis-point change in borrowing rates is forecast to be approximately $250 million. |

* Based on 2004-05.

## COMPENSATION COSTS

Compensation costs and wage settlements are key cost drivers and have a substantial impact on both the finances of broader public-sector partners and the Province.

| Sector | Cost of 1% salary increase | Size of Sector |
|---|---|---|
| OHIP Payments to Physicians† | $70 million | Almost 22,000 physicians in Ontario, comprising 10,800 family doctors and 11,000 specialists. |
| Hospital Nurses* | $34 million | Over 40,000 nurses in hospitals. |
| Elementary and Secondary School Staff** | $119 million | Over 180,000 staff including teachers, principals, administrators, support and maintenance staff. |
| Ontario Public Service*** | $50 million | Over 64,000 public servants. |

† Based on 2005-06.

* Based on 2003-04.

** One per cent increase in salary benchmarks in Grants for Student Needs based on 2004-05 school year.

*** Based on 2004-05, reflects total compensation costs.

## CONTINGENT LIABILITIES

### *Contingent Liabilities*

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are additional risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and that can be reasonably estimated, are expensed and reported as liabilities in the Province's financial statements. Significant contingent liabilities as disclosed in the 2003-04 Annual Report and Consolidated Financial Statements are described below. This disclosure will be updated as at March 31, 2005 in the 2004-05 Annual Report and Consolidated Financial Statements.

### *Ontario Nuclear Funds Agreement*

The Province has certain responsibilities with respect to nuclear used fuel waste management and nuclear station decommissioning. The Province, Ontario Power Generation Inc. (OPG), a wholly owned subsidiary, and certain subsidiaries of OPG are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used fuel waste management. Under ONFA, the Province is liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds for a fixed volume of used fuel. As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario Consumer Price Index for the nuclear used fuel waste management fund. The Province has also provided a direct Provincial guarantee to the Canadian Nuclear Safety Commission on behalf of OPG for up to $1.5 billion, which relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds.

### *Obligations Guaranteed by the Province*

The Province provides guarantees on loans on behalf of various parties. The authorized limit for loans guaranteed by the Province as at March 31, 2004 was $4.4 billion. The outstanding loans guaranteed and other contingencies amounted to $3.4 billion at March 31, 2004. A provision of $397 million based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been expensed and is reflected in the 2003-04 Annual Report and Consolidated Financial Statements of the Province.

### *Social Housing—Loan Insurance Agreements*

The Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation for any net costs, including any environmental liabilities incurred as a result of project defaults, for all non-profit housing projects in the Provincial portfolio. At March 31, 2004, there were $9.0 billion in mortgage loans outstanding.

### *Claims Against the Crown*

There are claims outstanding against the Crown arising from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property, and like items. At March 31, 2004, there were 80 claims outstanding against the Crown that were for amounts over $50 million.

# Section V: Key Financial Tables and Graphs

The following pages provide details on Ontario's Finances—both historical and projections over the medium term.

Key tables consist of:

- Medium-Term Fiscal Plan and Outlook (2004-05 to 2008-09);
- Fiscal Outlook (2004-05 to 2005-06);
- Details on Provincial Revenue (2001-02 to 2005-06);
- Details on Provincial Operating Expense, by Ministry (2001-02 to 2005-06);
- Details on Provincial Capital Expense, by Ministry (2001-02 to 2005-06);
- Schedule of Net Investment in Capital Assets (2005-06);
- Details on Capital Investment (2005-06);
- Summary of Consolidated Government Organizations (2005-06); and
- Ten-Year Review of Selected Financial and Economic Statistics (1996-97 to 2005-06).

Key graphs consist of:

- Composition of Revenue (2005-06);
- Composition of Total Expense (2005-06);
- Composition of Program Expense (2005-06); and
- Composition of Capital Expense (2005-06).

**Medium-Term Fiscal Plan and Outlook**
**($ Billions)**

Table A1

| | Interim | Plan | Outlook | | |
|---|---|---|---|---|---|
| | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
| **Revenue** | **77.1** | **81.7** | **84.8** | **88.5** | **92.2** |
| **Expense** | | | | | |
| Programs | 67.6 | 71.0 | 73.3 | 75.9 | 77.9 |
| Capital | 2.9 | 2.7 | 2.5 | 2.1 | 2.1 |
| Interest on Debt | 9.6 | 9.8 | 10.0 | 10.4 | 10.7 |
| Total Expense | 80.1 | 83.5 | 85.7 | 88.5 | 90.7 |
| **Surplus/(Deficit) Before Reserve** | **(3.0)** | **(1.8)** | **(0.9)** | **0.0** | **1.5** |
| **Reserve** | **-** | **1.0** | **1.5** | **1.5** | **1.5** |
| **Surplus/(Deficit)** | **(3.0)** | **(2.8)** | **(2.4)** | **(1.5)** | **0.0** |
| **Net Debt[†]** | **142.2** | **146.0** | **149.7** | **152.6** | **153.8** |
| **Accumulated Deficit[†]** | **127.2** | **130.0** | **132.4** | **133.9** | **133.9** |
| Gross Domestic Product (GDP) at Market Prices | 517.6 | 538.0 | 562.6 | 592.2 | 623.6 |
| Net Debt as a per cent of GDP | 27.5 | 27.1 | 26.6 | 25.8 | 24.7 |
| Accumulated Deficit as a per cent of GDP | 24.6 | 24.2 | 23.5 | 22.6 | 21.5 |

[†] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Note: Numbers may not add due to rounding.

**2005-06 Fiscal Outlook** **Table A2**
**($ Millions)**

| | Interim | Plan | Change | |
|---|---|---|---|---|
| | 2004-05 | 2005-06 | $ Millions | Per cent |
| **Revenue** | 77,137 | 81,687 | 4,550 | 5.9 |
| **Expense** | | | | |
| Programs | 67,622 | 71,014 | 3,392 | 5.0 |
| Capital | 2,899 | 2,673 | (226) | (7.8) |
| Interest on Debt | 9,609 | 9,796 | 187 | 1.9 |
| Total Expense | 80,130 | 83,483 | 3,353 | 4.2 |
| **Surplus/(Deficit) Before Reserve** | **(2,993)** | **(1,796)** | **1,197** | **(40.0)** |
| **Reserve** | - | 1,000 | 1,000 | - |
| **Surplus/(Deficit)** | **(2,993)** | **(2,796)** | **197** | **(6.6)** |
| **Net Debt**† | **142,228** | **146,017** | **3,789** | **2.7** |
| **Accumulated Deficit**† | **127,181** | **129,977** | **2,796** | **2.2** |

† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Note: Numbers may not add due to rounding.

**Revenue**
**($ Millions)**

**Table A3**

| | 2001-02 | 2002-03 | Actual<br>2003-04 | Interim<br>2004-05 | Plan<br>2005-06 |
|---|---|---|---|---|---|
| **Taxation Revenue** | | | | | |
| Personal Income Tax | 19,097 | 18,195 | 18,301 | 19,095 | 20,026 |
| Retail Sales Tax | 13,803 | 14,183 | 14,258 | 14,903 | 15,475 |
| Corporations Tax | 6,646 | 7,459 | 6,658 | 9,513 | 9,248 |
| Employer Health Tax | 3,502 | 3,589 | 3,753 | 3,886 | 4,033 |
| Ontario Health Premium | - | - | - | 1,749 | 2,422 |
| Gasoline Tax | 2,192 | 2,306 | 2,264 | 2,283 | 2,308 |
| Fuel Tax | 659 | 682 | 681 | 719 | 733 |
| Tobacco Tax | 703 | 1,183 | 1,350 | 1,466 | 1,511 |
| Land Transfer Tax | 665 | 814 | 909 | 1,056 | 1,056 |
| Electricity Payments-In-Lieu of Taxes | 387 | 711 | 627 | 509 | 656 |
| Other Taxes | 371 | 429 | 347 | 284 | 258 |
| | **48,025** | **49,551** | **49,148** | **55,463** | **57,726** |
| **Government of Canada*** | | | | | |
| Canada Health and Social Transfer (CHST) | 5,831 | 7,346 | 7,345 | - | - |
| Canada Health Transfer (CHT) | - | - | - | 5,636 | 7,127 |
| Canada Social Transfer (CST)** | - | - | - | 2,917 | 3,311 |
| CHST Supplements | 380 | 191 | 577 | 775 | 584 |
| Social Housing | 524 | 525 | 528 | 521 | 520 |
| Infrastructure Programs | - | 97 | 150 | 222 | 293 |
| Wait Times Reduction Fund | - | - | - | 242 | 243 |
| Medical Equipment Funds | 190 | - | 192 | 387 | 194 |
| Other Government of Canada | 829 | 735 | 1,101 | 1,324 | 901 |
| | **7,754** | **8,894** | **9,893** | **12,024** | **13,173** |
| **Income from Investment in Government Business Enterprises** | | | | | |
| Ontario Lottery and Gaming Corporation | 2,255 | 2,288 | 2,106 | 1,970 | 1,941 |
| Liquor Control Board of Ontario | 904 | 939 | 1,045 | 1,140 | 1,186 |
| Ontario Power Generation Inc. and Hydro One Inc. | 179 | 717 | (17) | 402 | 887 |
| Other Government Enterprises | 7 | (2) | (64) | 2 | 5 |
| | **3,345** | **3,942** | **3,070** | **3,514** | **4,019** |
| **Other Non-Tax Revenue** | | | | | |
| Reimbursements | 1,592 | 1,111 | 1,206 | 1,258 | 1,319 |
| Electricity Debt Retirement Charge | - | 889 | 1,000 | 1,009 | 1,018 |
| Vehicle and Driver Registration Fees | 941 | 982 | 985 | 991 | 1,017 |
| Power Sales | 815 | 635 | 510 | 610 | 961 |
| Other Fees and Licences | 474 | 606 | 594 | 494 | 510 |
| Liquor Licence Revenue | 530 | 530 | 488 | 493 | 502 |
| Net Reduction of Power Purchase Contract Liability | - | 161 | 104 | 236 | 396 |
| Sales and Rentals | 344 | 560 | 532 | 355 | 369 |
| Royalties | 224 | 304 | 248 | 268 | 236 |
| Miscellaneous Other Non-Tax Revenue | 2,490 | 726 | 622 | 422 | 441 |
| | **7,410** | **6,504** | **6,289** | **6,136** | **6,769** |
| **Total Revenue** | **66,534** | **68,891** | **68,400** | **77,137** | **81,687** |

* Health Reform Fund included in CHST in 2003-04 and CHT in 2004-05.

** Includes 2005 Federal Budget additional Early Learning and Child Care revenues of $272 million in 2005-06.

**Operating Expense**
**($ Millions)**

**Table A4**

| Ministry | 2001-02 | 2002-03 | Actual 2003-04 | Interim 2004-05 | Plan 2005-06 |
|---|---|---|---|---|---|
| Agriculture and Food | 456 | 598 | 673 | 733 | 564 |
| One-Time and Extraordinary Costs | 319 | 18 | - | 444 | - |
| Attorney General | 995 | 1,052 | 1,199 | 1,183 | 1,199 |
| Board of Internal Economy | 124 | 146 | 196 | 149 | 167 |
| Children and Youth Services | 2,244 | 2,431 | 2,640 | 2,856 | 3,196 |
| Citizenship and Immigration | 59 | 53 | 52 | 56 | 63 |
| Community and Social Services | 5,807 | 5,842 | 5,995 | 6,393 | 6,595 |
| Community Safety and Correctional Services | 1,513 | 1,656 | 1,666 | 1,741 | 1,753 |
| Consumer and Business Services | 172 | 178 | 182 | 201 | 178 |
| Culture | 279 | 331 | 303 | 295 | 275 |
| Democratic Renewal Secretariat | - | - | - | 2 | 4 |
| Economic Development and Trade | 221 | 242 | 253 | 279 | 688 |
| Education | 8,354 | 8,998 | 9,665 | 10,526 | 11,267 |
| Teachers' Pension Plan (TPP) | 42 | 238 | 235 | 240 | 290 |
| Energy | 367 | 144 | 116 | 138 | 148 |
| Environment | 265 | 237 | 261 | 310 | 314 |
| Executive Offices | 19 | 20 | 24 | 19 | 19 |
| Finance - Own Account | 1,197 | 1,092 | 1,255 | 1,141 | 1,126 |
| Interest on Debt | 10,337 | 9,694 | 9,604 | 9,609 | 9,796 |
| Community Reinvestment Fund/Ontario Municipal Partnership Fund | 557 | 622 | 651 | 626 | 662 |
| Community Reinvestment Fund One-Time Transition Funding | - | - | - | 233 | - |
| Electricity Consumer Price Protection Fund | - | 665 | 253 | - | - |
| Power Purchases | 815 | 786 | 797 | 850 | 961 |
| Health and Long-Term Care | 23,923 | 25,800 | 28,036 | 31,112 | 32,948 |
| SARS-related and Major One-Time Health Costs | - | - | 824 | - | - |
| Intergovernmental Affairs | 6 | 9 | 6 | 13 | 8 |
| Labour | 110 | 123 | 117 | 132 | 146 |
| Management Board Secretariat | 246 | 186 | 214 | 687 | 469 |
| Retirement Benefits | 63 | 102 | 309 | 493 | 514 |
| Contingency Fund | - | - | - | - | 557 |
| Municipal Affairs and Housing | 1,136 | 636 | 662 | 771 | 683 |
| Native Affairs Secretariat | 13 | 16 | 15 | 18 | 14 |
| Natural Resources | 438 | 454 | 516 | 485 | 492 |
| Northern Development and Mines | 75 | 73 | 76 | 79 | 111 |
| Office of Francophone Affairs | 5 | 3 | 3 | 4 | 4 |
| Public Infrastructure Renewal | 15 | 33 | 18 | 20 | 30 |
| Tourism and Recreation | 143 | 135 | 209 | 184 | 163 |
| Training, Colleges and Universities | 3,290 | 3,471 | 3,883 | 4,298 | 4,781 |
| Transportation | 664 | 814 | 800 | 911 | 975 |
| Year-End Savings | - | - | - | - | (350) |
| **Total Operating Expense** | **64,269** | **66,898** | **71,708** | **77,231** | **80,810** |

**Capital Expense**[†] **Table A5**

**($ Millions)**

| Ministry | 2001-02 | 2002-03 | Actual 2003-04 | Interim 2004-05 | Plan 2005-06 |
|---|---|---|---|---|---|
| Agriculture and Food | 29 | 68 | 1 | 4 | 11 |
| Attorney General | 46 | 43 | 24 | 37 | 75 |
| Children and Youth Services | 6 | 7 | - | 5 | 109 |
| Community and Social Services | 25 | 16 | 10 | 20 | 33 |
| Community Safety and Correctional Services | 88 | 66 | 47 | 32 | 48 |
| Consumer and Business Services | - | 1 | 1 | 4 | 5 |
| Culture | 14 | 42 | 24 | 67 | 115 |
| Economic Development and Trade | 19 | 21 | 31 | 77 | 82 |
| Education | 17 | 10 | 15 | 50 | 6 |
| Energy | 50 | 46 | 53 | 53 | 49 |
| Environment | 20 | 13 | 4 | 7 | 13 |
| Finance | 11 | 8 | 5 | 5 | 5 |
| Health and Long-Term Care | 205 | 339 | 358 | 531 | 339 |
| Management Board Secretariat* | 28 | 3 | (33) | (5) | (18) |
| Municipal Affairs and Housing | 12 | 20 | 206 | 273 | 392 |
| Native Affairs Secretariat | 3 | 2 | - | 2 | 3 |
| Natural Resources | 70 | 72 | 111 | 74 | 53 |
| Northern Development and Mines | 371 | 391 | 332 | 357 | 421 |
| Public Infrastructure Renewal | - | 4 | 18 | 46 | 57 |
| Capital Contingency Fund | - | - | - | - | 175 |
| Tourism and Recreation | 9 | 55 | 51 | 65 | 93 |
| Training, Colleges and Universities | 49 | 71 | 120 | 421 | 135 |
| Transportation | 818 | 578 | 797 | 774 | 622 |
| Year-End Savings | - | - | - | - | (150) |
| **Total Capital Expense** | **1,890** | **1,876** | **2,175** | **2,899** | **2,673** |

[†] Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

* Ministries' contributions for investments in Provincially owned land and buildings are recorded as an expense by the contributing ministries. Starting in 2002-03, any resulting adjustment to expense from the capitalization and amortization of most of these Provincially owned land and buildings is recorded in Management Board Secretariat.

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

### Schedule of Net Investment in Capital Assets ($ Millions)

Table A6

| | 2005-06 Plan | | | |
|---|---|---|---|---|
| | Land and Buildings | Transportation Infrastructure | Government Organizations' Capital Assets | Total |
| Acquisition/Construction of Major Tangible Capital Assets | 160 | 1,131 | 526 | 1,817 |
| Amortization of Provincially Owned Major Tangible Capital Assets | (84) | (534) | (206) | (824) |
| **Net Investment in Capital Assets** | **76** | **597** | **320** | **993** |

Source: Ontario Ministry of Public Infrastructure Renewal.

### Gross Capital Investment ($ Millions)

Table A7

| | Plan 2005-06 | |
|---|---|---|
| Transportation | | |
| Transit | 513 | |
| Highways | 1,135 | |
| Other Transportation | 110 | |
| | | 1,758 |
| Health and Long-Term Care | | 349 |
| Postsecondary Education | | 132 |
| Water/Environment | | 292 |
| Municipal and Local Infrastructure* | | 535 |
| Justice | | 123 |
| Other | | 477 |
| **Total Gross Capital Investment**** | | **3,666** |
| **Less: Net Investment in Capital Assets** | | **993** |
| **Total Capital Expense** | | **2,673** |

* Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector.

** Total gross capital investment includes flow-throughs of $531 million.

Source: Ontario Ministry of Public Infrastructure Renewal.

## SUMMARY OF CONSOLIDATED GOVERNMENT ORGANIZATIONS

The government carries out a number of activities through government organizations. These organizations provide, in some circumstances, programs directly to the public and in other cases services to the government itself.

Table A8 has been added to the Appendix this year to provide the public with additional information on the extent of activities carried out through these organizations. It reflects the total revenues and expenses related to the activities of these organizations and the extent to which they receive transfer payments from the government to fund these activities. The net increase/(decrease) to Provincial deficit reflects, for those organizations offering services directly to the public, the net grant to support these activities; and for those organizations offering services to the government, the net costs of services used by the government during the year.

**Summary of Consolidated Government Organizations***
**($ Millions)**

**Table A8**

| | 2005-06 Plan | | | | |
|---|---|---|---|---|---|
| | Agency** | | | | |
| **Ministry/Agency** | **Total Revenue** | **Total Expense** | **Net (Income)/ Loss** | **Transfers from Province Included in Agency Revenue** | **Net Increase/ (Decrease) to Provincial Deficit** |
| **Agriculture and Food** | | | | | |
| Agricorp | 404 | 376 | (28) | 138 | 110 |
| **Attorney General** | | | | | |
| Legal Aid Ontario | 290 | 310 | 20 | 254 | 274 |
| **Culture** | | | | | |
| Ontario Science Centre | 38 | 39 | 1 | 18 | 19 |
| Ontario Trillium Foundation | 106 | 106 | - | 100 | 100 |
| Royal Ontario Museum | 23 | 25 | 2 | 19 | 21 |
| **Economic Development and Trade** | | | | | |
| Ontario Immigrant Investor Corporation | 12 | 5 | (7) | - | (7) |
| **Education** | | | | | |
| Education Quality and Accountability Office | 40 | 40 | - | 40 | 40 |
| **Energy** | | | | | |
| Independent Electricity System Operator | 154 | 152 | (2) | - | (2) |
| Ontario Energy Board | 32 | 32 | - | - | - |

## Summary of Consolidated Government Organizations* (\$ Millions)

Table A8

| Ministry/Agency | 2005-06 Plan | | | | |
|---|---|---|---|---|---|
| | Agency** | | | Transfers from Province Included in Agency Revenue | Net Increase/ (Decrease) to Provincial Deficit |
| | Total Revenue | Total Expense | Net (Income)/ Loss | | |
| **Finance** | | | | | |
| Ontario Financing Authority[†] | 25 | 25 | - | 17 | 17 |
| Ontario Securities Commission[††] | 57 | 65 | 8 | - | 8 |
| Ontario Strategic Infrastructure Financing Authority | 103 | 124 | 21 | - | 21 |
| **Health and Long-Term Care** | | | | | |
| Cancer Care Ontario | 479 | 473 | (6) | 449 | 443 |
| Smart Systems for Health | 107 | 107 | - | 98 | 98 |
| **Management Board Secretariat (MBS)** | | | | | |
| Ontario Realty Corporation (ORC)[†] | 51 | 50 | (1) | 50 | 49 |
| ORC Operating as Agent for the Province[†] *** | 600 | 584 | (16) | 548 | 532 |
| **Municipal Affairs and Housing** | | | | | |
| Ontario Housing Corporation | 118 | 79 | (39) | 116 | 77 |
| **Northern Development and Mines** | | | | | |
| Northern Ontario Heritage Fund Corporation | 68 | 116 | 48 | 61 | 109 |
| **Tourism and Recreation** | | | | | |
| Metropolitan Toronto Convention Centre | 45 | 41 | (4) | - | (4) |
| Ontario Place Corporation | 18 | 19 | 1 | 4 | 5 |
| Ontario Tourism Marketing Partnership Corporation | 50 | 55 | 5 | 49 | 54 |
| **Training, Colleges and Universities** | | | | | |
| Ontario Educational Communications Authority (TVOntario) | 79 | 76 | (3) | 59 | 56 |

## Summary of Consolidated Government Organizations* ($ Millions)

Table A8

| | 2005-06 Plan | | | | |
|---|---|---|---|---|---|
| | Agency** | | | | |
| Ministry/Agency | Total Revenue | Total Expense | Net (Income)/ Loss | Transfers from Province Included in Agency Revenue | Net Increase/ (Decrease) to Provincial Deficit |
| **Transportation** | | | | | |
| Greater Toronto Transit Authority (GO Transit) | 538 | 351 | (187) | 311 | 124 |
| Toronto Area Transit Operating Authority | 45 | 3 | (42) | 45 | 3 |
| **Total** | **3,482** | **3,253** | **(229)** | **2,376** | **2,147** |

* The Ontario Electricity Financial Corporation (OEFC) has a projected excess of revenue over expense of $713 million for 2005-06. As OEFC's revenues are dedicated to managing and retiring the debt and other liabilities of the former Ontario Hydro, OEFC is not included in this table as its activities are not comparable to the activities of other government organizations.

** The revenues and expenses of government organizations, except for government business enterprises, are consolidated on a line-by-line basis with ministry revenues and expenses. Adjustments are made to present the accounts of these government organizations on a basis consistent with the Province's accounting policies, e.g., conforming the accounting for capital grants received by an organization to the Province's accounting policy. These adjustments have been made to the agencies' revenues and expenses above except for interest revenue and interest expense adjustment. Upon consolidation, adjustments are made to eliminate significant inter-organization transactions, e.g., transfers received from the Province.

*** ORC maintains several operating bank accounts that are held "in trust", administered on behalf of MBS, and relate directly to the operation of MBS-owned and -leased properties or services provided to other ministries or agencies of the Ontario Government. The activities reported under ORC Operating as Agent for the Province are shown separately as they will not be reflected on ORC's financial statements. Transfers to ORC reflect the accommodation charges and contributions received from ministries and agencies for leased premises or buildings owned by the Province and managed by ORC. The Net Increase to Provincial Deficit for ORC represents the costs of these leased premises and the operating costs of the Provincially owned assets and the costs of other realty activities incurred on behalf of ministries and agencies by ORC as the Province's realty service provider. The planned expenditures actually reside in individual Ministry allocations or agency budgets in either the current or prior years.

† Organizations offering service to the government.

†† The Ontario Securities Commission is a fully self-funded agency. OSC fees are set over a three-year period to recover any deficits or adjust for any surpluses so that the fees set by the OSC accurately reflect the Commission's cost of operations.

## Ten-Year Review of Selected Financial and Economic Statistics
($ Millions)

| | 1996-97 | 1997-98 | 1998-99 |
|---|---|---|---|
| **Financial Transactions** | | | |
| Revenue | 49,714 | 52,782 | 56,050 |
| Expense | | | |
| Programs | 45,400 | 45,568 | 46,821 |
| Capital* | 2,612 | 2,451 | 2,215 |
| Interest on Debt | 8,607 | 8,729 | 9,016 |
| Total Expense | 56,619 | 56,748 | 58,052 |
| **Surplus/(Deficit) Before Reserve** | **(6,905)** | **(3,966)** | **(2,002)** |
| **Reserve** | - | - | - |
| **Surplus/(Deficit)** | **(6,905)** | **(3,966)** | **(2,002)** |
| **Net Debt**† | **108,769** | **112,735** | **114,737** |
| **Accumulated Deficit**† | **108,769** | **112,735** | **114,737** |
| Gross Domestic Product (GDP) at Market Prices | 338,173 | 359,353 | 377,897 |
| Personal Income | 276,303 | 289,537 | 304,652 |
| Population—July (000s) | 11,083 | 11,228 | 11,367 |
| Net Debt per Capita (dollars) | 9,814 | 10,041 | 10,094 |
| Personal Income per Capita (dollars) | 24,930 | 25,787 | 26,801 |
| Total Expense as a per cent of GDP | 16.7 | 15.8 | 15.4 |
| Interest on Debt as a per cent of Revenue | 17.3 | 16.5 | 16.1 |
| Net Debt as a per cent of GDP | 32.2 | 31.4 | 30.4 |
| Accumulated Deficit as a per cent of GDP | 32.2 | 31.4 | 30.4 |

* Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

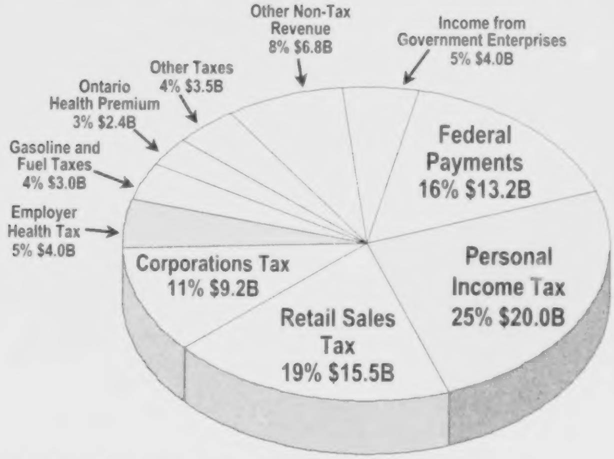
† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Sources: Ontario Ministry of Finance and Statistics Canada.

Table A9

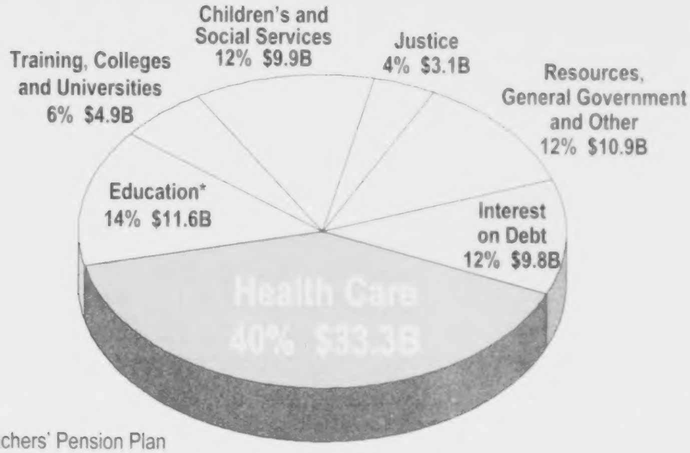
| | | | | Actual | Interim | Plan |
|---|---|---|---|---|---|---|
| 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
| 65,042 | 66,294 | 66,534 | 68,891 | 68,400 | 77,137 | 81,687 |
| 48,460 | 51,396 | 53,932 | 57,204 | 62,104 | 67,622 | 71,014 |
| 4,887 | 2,123 | 1,890 | 1,876 | 2,175 | 2,899 | 2,673 |
| 11,027 | 10,873 | 10,337 | 9,694 | 9,604 | 9,609 | 9,796 |
| 64,374 | 64,392 | 66,159 | 68,774 | 73,883 | 80,130 | 83,483 |
| **668** | **1,902** | **375** | **117** | **(5,483)** | **(2,993)** | **(1,796)** |
| - | - | - | - | - | - | 1,000 |
| **668** | **1,902** | **375** | **117** | **(5,483)** | **(2,993)** | **(2,796)** |
| **134,398** | **132,496** | **132,121** | **132,647** | **138,557** | **142,228** | **146,017** |
| **134,398** | **132,496** | **132,121** | **118,705** | **124,188** | **127,181** | **129,977** |
| 409,020 | 440,759 | 453,931 | 479,556 | 494,501 | 517,614 | 537,958 |
| 321,702 | 347,653 | 360,496 | 369,606 | 379,216 | 392,858 | 407,700 |
| 11,506 | 11,685 | 11,898 | 12,102 | 12,257 | 12,393 | 12,551 |
| 11,681 | 11,339 | 11,104 | 10,961 | 11,304 | 11,476 | 11,634 |
| 27,959 | 29,752 | 30,299 | 30,541 | 30,939 | 31,700 | 32,483 |
| 15.7 | 14.6 | 14.6 | 14.3 | 14.9 | 15.5 | 15.5 |
| 17.0 | 16.4 | 15.5 | 14.1 | 14.0 | 12.5 | 12.0 |
| 32.9 | 30.1 | 29.1 | 27.7 | 28.0 | 27.5 | 27.1 |
| 32.9 | 30.1 | 29.1 | 24.8 | 25.1 | 24.6 | 24.2 |

# Composition of Revenue 2005-06



Note: Numbers may not add due to rounding.

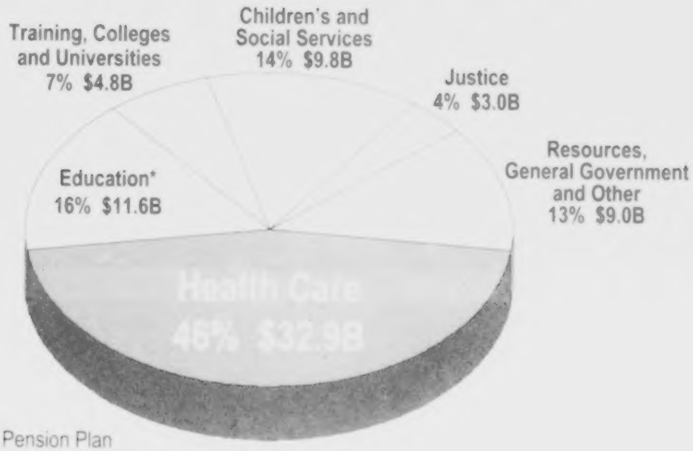
# Composition of Total Expense 2005-06



* Includes Teachers' Pension Plan

Note: Numbers may not add due to rounding.

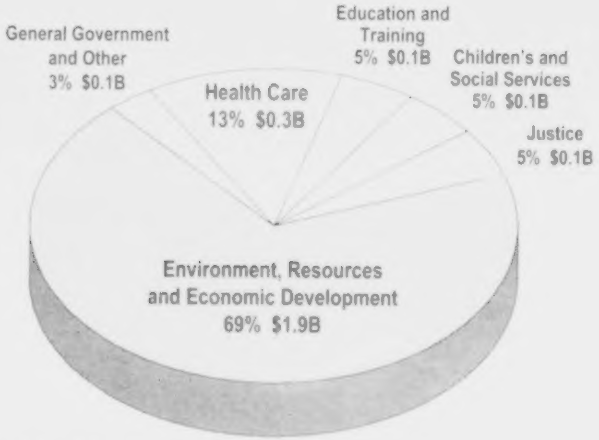
# Composition of Program Expense 2005-06



* Includes Teachers' Pension Plan

Note: Numbers may not add due to rounding.

# Composition of Capital Expense 2005-06



Note: Numbers may not add due to rounding.

# PAPER A: APPENDIX 2

Transparency and Accountability

# Transparency and Accountability

Transparency is the basis of an accountable, democratic government. To participate effectively in a democratic process, citizens must be able to see fully and clearly what their government is doing. Transparent communication with citizens involves not just making information available, but also ensuring its integrity and clarity. Because governments often deal with issues that are by nature complicated, a commitment to transparency is both important and challenging.

Accountability involves setting out expectations about the outcomes to be achieved; monitoring and reporting publicly on progress; using that information to improve performance; and working to achieve results and taking responsibility for them. Accountability relationships exist between governments and the electorate; between politicians and the public service; between managers and staff; and between service funders, providers and their clients. For taxpayers, accountability works to ensure that tax dollars are spent on achieving key results as efficiently as possible.

The government established a new emphasis on transparency and accountability and has made progress over the past year.

- The *Fiscal Transparency and Accountability Act, 2004* (FTAA) sets new standards for how the government plans to allocate resources, and how and when it reports to the people on the state of the Province's finances. In particular, the FTAA requires two new and different reports. A long-term analysis within two years of an election and a pre-election report before every general election will provide the public with the kind of information they need to participate more fully in policy debates.
- In line with Public Sector Accounting Board (PSAB) standards of the Canadian Institute of Chartered Accountants, the Province's financial statements will incorporate the bottom-line financial results of hospitals, school boards and colleges beginning with the 2005-06 Public Accounts.
- Modern Controllership, a training and development initiative that has been evolving over the last several years, requires managers and financial specialists across the Ontario Public Service to work in a co-ordinated way to prioritize, plan and meet operational goals.
- A government-wide, results-based approach to planning has been developed to invest in the priorities of Ontario while still living within Ontario's means. Program results are integrated into planning and decision-making, and regular reports are made to the public on progress towards achieving their goals.
- Legislation passed in 2004 gives the Provincial Auditor, now called the Auditor General, the authority to carry out value-for-money audits of organizations that deliver front-line services, including health care and education.

## CONSOLIDATING HOSPITALS, SCHOOLS AND COLLEGES

In its 2004 Budget, the government announced it would expand its financial reporting to include hospitals, schools and colleges in its financial statements starting with the 2005-06 Public Accounts and the subsequent 2007 Ontario Budget, reflecting PSAB's new standard defining those organizations that should be included in the government's financial statements. With this change in its financial reporting, the bottom-line financial results of some 105 school boards and school authorities, 24 colleges and 152 hospitals will now be reflected in the Province's financial statements. Up until now, the only information included in the Province's books with respect to these organizations was the funds transferred to them. Now, their actual expenditures, investments and borrowings will be reflected on a bottom-line basis in the Province's financial statements. The Province will also provide additional information on the major assets, liabilities, revenues and expenses of these sectors in the schedules supporting the Province's financial statements.

### *Value-for-Money Audits*

The Office of the Auditor General is an independent body that contributes to accountability in government. Auditors with professional accounting designations assess government programs and systems to help improve the government's delivery of programs and ensure that Ontario taxpayers receive value for money. The Auditor General's annual reports are a catalyst for action because they make recommendations to overcome identified problems and report the extent of commitment by management to take action. These public reports promote better accountability and governance.

As of April 1, 2005, the Auditor General possesses expanded powers to conduct value-for-money audits of institutions in the broader public sector. This new mandate includes school boards, universities, colleges, hospitals and all Crown-controlled corporations including Hydro One, Ontario Power Generation and their subsidiaries. More public-sector organizations will be reviewed to ensure that Ontarians are getting value for the money they invest in their public services. The Auditor General's reports are tabled in the legislature and made available to the public.

Value-for-money audits are motivated by two principal considerations:

- whether money was spent with due regard for economy and efficiency; and
- whether appropriate procedures are in place to measure and report on the effectiveness of the programs.

Value-for-money audits deal with the administration of programs and activities, including major information systems. It is not part of the Auditor General's mandate to measure, evaluate or report on the effectiveness of programs or to develop performance measures or standards. These functions are the responsibility of management. The Auditor General is responsible for reporting whether management has carried out these functions satisfactorily.

## CONCLUSION

Democracy depends on a knowledgeable citizenry whose access to a range of information enables them to participate more fully in public life, to help determine priorities for public spending, and to hold their public officials accountable. By combining integrity and clarity of information with monitoring and reporting on progress to improve results, the government is committed to a fiscal policy that is transparent and accountable.

In implementing these changes in its financial reporting and auditing practices, the Province is improving the transparency and accountability of government in Ontario.

# PAPER B

## Achieving Our Potential: Progress Towards a New Generation of Economic Growth

# Introduction

Today, Ontario provides a quality of life that is among the highest in the world. There is, however, no room for complacency. In an era where ideas and technology spread rapidly over borders, where barriers to trade are falling and where global competition is fierce, the challenge of improving living standards is significant. In Ontario's case, this challenge is compounded by the recent strengthening of the Canadian dollar and the emergence of new competitors in countries with lower production costs.

Productivity gains are the key to improving living standards—the government's primary economic objective. The government recognizes that the private sector is the principal source of economic growth and rising prosperity. However, the government does have an important role to play in fostering a positive business climate and making strategic investments in postsecondary education, public infrastructure and services. Underpinning the government's ability to promote economic prosperity is a firm commitment to fiscal discipline. The government's plan to restore fiscal discipline to Ontario is outlined in Paper A, *Investing in People—Managing Ontario's Finances*.

This paper outlines the government's economic strategy to secure the investments in both people and capital that will foster productivity improvements and achieve the potential of Ontario's economy to create more jobs and higher incomes. These results could be enhanced by the active co-operation of the federal government in pursuing policies that recognize that a strong Ontario economy means a strong Canadian economy.

The key elements of the government strategy for making progress towards a new generation of economic growth include:

- new $6.2 billion cumulative investment by 2009-10 in Reaching Higher: The McGuinty Government Plan for Postsecondary Education, to create quality higher education, improve access and ensure Ontario's colleges and universities remain competitive with the best in the world;
- investing in roads, bridges, public transit, water and sewage treatment, hospitals, schools, colleges, universities and other capital projects through a five-year public infrastructure plan with a total value of more than $30 billion;
- taking steps to ensure a reliable, sustainable electricity supply, including the development of new sources of clean, renewable power and initiatives to encourage conservation;
- maintaining a competitive tax and business environment;
- modernizing the regulatory environment to strike the right balance between business needs and the public interest in the rapidly evolving global market;
- targeting investments in key sectors to capitalize on Ontario's strengths and promote productivity improvements;

- increasing Ontario's public research and development investments and proposing to establish the Research Council of Ontario, strengthening regional innovation networks and marketing Ontario as a leading North American jurisdiction for scientific research and innovation;
- achieving the potential of Ontario's regions and municipalities to contribute to economic growth and prosperity; and
- helping new Canadians and internationally trained professionals integrate more rapidly into the Ontario economy.

Details of the government's economic strategy are presented in the following sections:

- Section I describes Reaching Higher: The McGuinty Government Plan for Postsecondary Education as well as measures to help new Canadians enter the labour force more quickly;
- Section II focuses on encouraging business investment, key sector initiatives and modernizing regulation;
- Section III describes government strategies to promote growth and innovation through improved co-ordination of research;
- Section IV outlines a fiscally responsible approach to strategic infrastructure investments; and
- Section V describes strategic measures that the government is taking to support effective participation of Ontario's cities and regions in the next generation of economic growth.

The Appendix provides the macroeconomic projections that underlie the 2005 Budget fiscal plan.

# Section I: Knowledge and Skills: Key to Economic Prosperity

An educated and skilled workforce provides the key competitive edge for Ontario in the 21st century. In coming years, the brains and know-how of the workforce will provide ideas and skills to drive an innovative economy—one that is able to respond to challenges and seize opportunities in a fast-paced global market. Knowledge workers act as a magnet for leading-edge firms seeking to invest in new ideas. In addition, workers with up-to-date skills can make the most of emerging technologies and contribute to a more productive economy that can compete successfully for international investment capital.

Industries and occupations are constantly evolving and requiring new skills. What is new today is the level and breadth of knowledge and skill necessary to prosper. Ontario's workers and employers must be flexible and responsive to succeed in the global marketplace. With recent education investments by other jurisdictions, an increasingly competitive global economy and the relentless advance of new technologies, Ontario must also ensure that its institutions of higher learning that educate the skilled workers required are competitive with the best in the world.

The emerging challenges of the global marketplace are compounded by the fact that Ontario's labour force is aging and forecast to grow more slowly over the next few decades. Although Ontario's population is relatively younger compared to European countries and Japan, it is projected to age faster than that of the United States, mainly because of a lower fertility rate.

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**Baby Boom Will Drive Aging of the Population and Slower Labour-Force Growth**

- The baby-boom cohort, which comprises one-third of Ontario's population, is starting to approach retirement.
- Baby boomers will begin to turn 65, starting in 2011. Seniors will make up 22 per cent of the population by 2031, compared to 13 per cent now.
- The working-age population will also be older: the share of those aged 50+ is projected to rise from 37 per cent in 2005 to 48 per cent in 2031 while the share of youth will fall from 17 per cent to 13 per cent.
- The number of people turning age 65 will, for the first time, outpace youth turning age 15 in 2017.

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This demographic challenge requires labour-market policies that unlock the full potential of Ontario's working-age population so that slower labour-force growth will not be a drag on the economy in years to come. This means ensuring that educational institutions equip people with the leading-edge expertise and skill sets required to contribute to Ontario's economy. It means knowledge and skills must be kept current through lifelong learning and on-the-job training. It means making full use of new Canadians' skills. It also means encouraging the broadest labour-force participation of the working-age population, including older workers who want to work for as many years as they are willing and able, and youth with little education and poor job prospects.

## REACHING HIGHER: THE MCGUINTY GOVERNMENT PLAN FOR POSTSECONDARY EDUCATION

In the 2005 Budget, Ontario is making an essential strategic investment in the knowledge and skills of Ontario's workforce that will translate into competitive advantage and economic growth.

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**Strong People, Strong Economy**

"Ontario will be *the* place to be when our citizens are equipped to compete with people all over the world for the best jobs and investment. We will build a prosperous economy that is grounded in the knowledge and know-how of our people. Improving the quality of our workforce spurs economic growth and stimulates investment in innovation and better public health care. Strong people build a strong economy." —Getting Results for Ontario, Premier's Progress Report, 2004.

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Reaching Higher is a comprehensive plan for postsecondary education and training—one that improves access, one that values quality teaching, research and student experience, and one that supports economic prosperity and a higher standard of living.

Paper A, *Investing in People—Managing Ontario's Finances*, describes new cumulative investments of $6.2 billion, including an additional $683 million in 2005-06, rising to $1.6 billion by 2009-10. This will represent a 39 per cent increase in funding by 2009-10 compared to the 2004-05 funding base. It means that funding available for student assistance will more than double, from $332 million in 2004-05 to $690 million by 2009-10.

Reaching Higher will result in higher quality education and greater accountability. Students will benefit from greater job opportunities and higher incomes after graduation and their knowledge and skills will create the economic growth of tomorrow.

The government's new investments will be tied to performance and results. The Reaching Higher plan will see:

- 135,000 students benefiting this year from new low-income tuition grants and other enhancements to student assistance;
- a significant increase in the number of students enrolled in postsecondary education institutions;
- 14,000 more graduate students by 2009-10; and
- more qualified doctors through a 15 per cent expansion of first-year medical spaces.

The investments will also result in more faculty, assured quality teaching and an improved student experience; increased access and success for francophones, aboriginals, and persons with disabilities; and improved public reporting of system-wide results.

## Reaching Higher: The McGuinty Government Plan for Postsecondary Education

### Total New Investment

- New cumulative investments of $6.2 billion by 2009-10. Additional new investments of $683 million this year, rising to $1.6 billion by 2009-10 over the 2004-05 funding base.
- Represents a 39 per cent increase, including a doubling of funding available for student financial assistance compared to 2004-05.

### Access

- Significantly increase the number of students enrolled in postsecondary institutions.
- $358 million additional funding for student financial assistance by 2009-10; $192 million of new funding in 2005-06.
- New low-income tuition grants, in partnership with the federal government and the Canada Millennium Scholarship Foundation, higher weekly loan limits and reduced parental contributions, benefiting 135,000 low- and medium-income students in 2005-06.
- $50 million annually for the Ontario Trust for Student Support to match private-sector contributions to create endowments for student support.
- $100 million to create endowments at universities that will provide fellowships for outstanding graduate students.
- $55 million annually by 2009-10 to improve access and success of under-represented groups.
- $20 million annually by 2007-08 for northern and rural colleges to increase opportunity and ensure quality.
- A strategy to attract more international students and encourage study abroad for Ontario students.
- $220 million new investment annually by 2009-10 to expand graduate education by 14,000 students.
- $95 million new funding to improve medical education and expand first-year spaces by 15 per cent by 2008-09.
- Capital support to expand graduate and medical school facilities.
- $20 million annually by 2007-08 for new apprenticeship initiatives and other investments for new Canadians.

### Quality

- $1.2 billion or a 35 per cent additional investment in operating grants by 2009-10—supporting enrolment growth, hiring faculty, improving student resources, expanding graduate education and enhancing student experience.
- A proposed Research Council of Ontario to co-ordinate research priorities.
- $25 million to endow new faculty chairs for research and to improve graduate education.

### Accountability

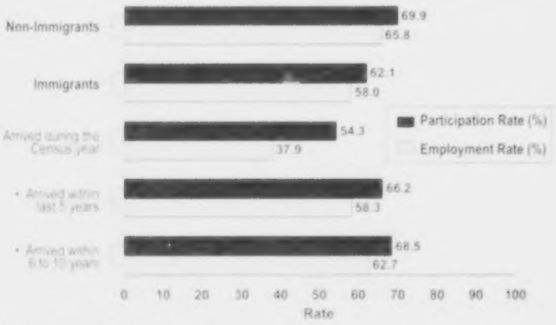
- A proposed Higher Education Quality Council of Ontario to take a lead role on system performance and measures.
- New bilateral performance agreements with all public institutions to improve accountability.

## INTEGRATION OF NEW CANADIANS INTO THE LABOUR MARKET

The government is also investing in enhanced services to help new Canadians enter the labour market more quickly.

Ontario welcomes about 125,000 new Canadians every year, fully half or more of all new Canadians. While new Canadians tend to arrive with even stronger educational credentials than the Ontario population as a whole, many new Canadians encounter barriers to working to their full potential. According to Statistics Canada, recently arrived immigrants have lower employment rates and lower earnings than those who arrived in previous decades.

**Participation & Employment Rates, Immigrants & Non-Immigrants, Ontario, 2001**



Source: Statistics Canada, 2001 Census.

New Canadians already account for a significant proportion of net labour-force growth. As the population ages and fertility rates continue to be low, this will increase to the point that, within the next decade, new Canadians may be the only source of net labour-force growth. With current and expected shortages in many occupations and skilled trades, Ontario's economy must utilize new Canadians' potential.

The government has made progress in removing barriers to credential recognition, working with 36 occupational regulators. Ontario has funded over 35 bridging support and employment projects to integrate new Canadians more quickly into Ontario's labour market and has implemented the successful International Medical Graduates Ontario system to train and license foreign-trained physicians.

## NEW TRAINING INVESTMENTS

Additional investments outlined in this Budget will help expand the apprenticeship system, improve job prospects for new Canadians, and create new opportunities for at-risk youth. An effective partnership with the federal government and signed labour-market and immigration agreements would provide important new resources to deliver on Ontario's labour-market priorities.

### New Training *Investments*

- $10 million in 2006-07, rising to $17.5 million annually by 2007-08, for new services for new Canadians and prospective apprentices, including outreach, assessment, pre-apprenticeship and academic upgrading, as part of the new One-Stop Training and Employment System.
- Labour Market Integration Assistance for New Canadians
  - $2.5 million annually for expansion of Bridge Training programs that help skilled new Canadians move quickly into the labour market;
  - $4 million over the next two years for colleges to pilot re-engineered processes and programs to help new Canadians access college education and jobs; and
  - $1 million over two years to pilot programs to encourage employers to better recognize the skills of new Canadians.

The initiatives in this Budget build on training programs announced in the 2004 Budget with new investments that reinforce the government's priorities.

### Current Training Initiatives and Results

| Commitments: | Results to Date: |
|---|---|
| $11.7 million by 2006-07 to expand apprenticeship. | Exceeded target of 19,000 new registrants in 2004-05. On target to increase new registrants by 7,000, reaching 26,000 in total per year by 2007-08. |
| $95 million Apprenticeship Training Tax Credit to encourage employers to hire more apprentices. Up to $15,000 available over the first three years of an eligible apprenticeship. | Tax Credit legislated and endorsed by employer groups. |
| $15 million annual funding by 2007-08 for new academic upgrading and training options for early high school leavers. | Already provided academic upgrading opportunities for about 800 at-risk youth and adults. Will serve 6,000 at maturity. |
| $12.5 million by 2005-06 to expand Bridge Training and other employment services for new Canadians to enter the workforce. | Over 35 Bridge Training projects. Enhanced language training for 3,000 people. Information and referral for 5,000 clients and more intensive employment services for 650 through Job Connect. |
| Eliminate barriers to credential recognition and job entry for new Canadians. | Released "Opening Doors—An Investment in Prosperity" in January 2005, reporting on progress made in a number of professions and trades. |
| $4.5 million by 2005-06 for scholarship/employer bonuses for high school leavers entering apprenticeship. | Program implemented and first 100 scholarship recipients identified. |

| | |
|---|---|
| ♦ Design and implement new One-Stop Training and Employment System. | ♦ Consultation and planning underway. |
| ♦ $111 million annually for Job Connect labour-market training and support services. | ♦ 129,000 people, largely youth, served by Job Connect in 2004-05. 80 per cent found a job or went on to further education and training. |
| ♦ $52 million annually for Ontario Summer Jobs Strategy. | ♦ More than 61,000 young people found summer jobs or started their own businesses in 2004-05. |
| ♦ JobsNow, an innovative pilot project in six communities to help people leave welfare for work. | ♦ Approximately 1,500 jobs already identified and first job placements underway. |

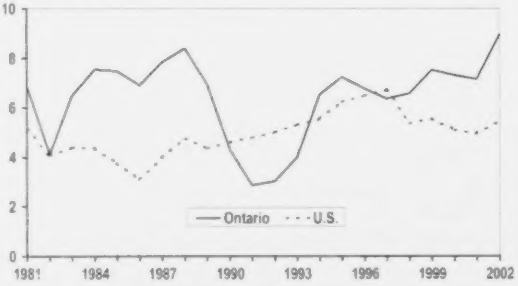
# Section II: Encouraging Business Investment

The Ontario Government recognizes that the private sector is the principal source of economic growth and increasing prosperity. Businesses assess a large number of factors in deciding where to invest, including the quality of government services, infrastructure and, above all, the skills of the workforce.

One of the government's principal goals is to make Ontario more attractive to investors. To achieve this, Ontario has to compete by finding the right balance between taxation and government services and by delivering excellent value in the services provided.

**Ontario's Corporations Are Highly Profitable**

*After-tax Profits as Per Cent of GDP*



Sources: Data from Statistics Canada PEA, and U.S. BEA

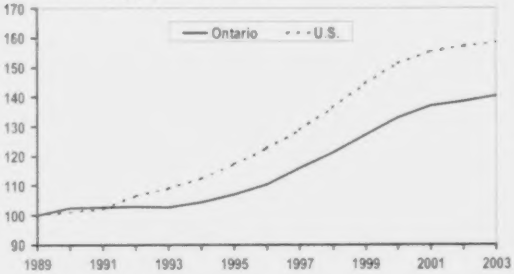
Studies looking at the total cost of doing business, including all taxes paid by firms, have found that costs in Ontario are lower than in the United States. This has resulted in a favourable level of profitability for corporations operating in Ontario. In fact, corporate after-tax profits are a higher share of GDP in Ontario than in the United States. One of Ontario's key benefits is its publicly funded health care system, which provides its exporters with a substantial cost advantage relative to their U.S. competitors. A 2002 survey for the Ontario Chamber of Commerce suggests that almost two-thirds of respondents consider our health care system to be a competitive advantage. In contrast, U.S. firms are increasingly concerned about how their health care system is affecting U.S. competitiveness.

> "The cost of health care in the U.S. is making American businesses extremely uncompetitive vs. our global counterparts."
> — G. Richard Wagoner Jr., Chairman and CEO, General Motors Corporation

New capital investment is critical, bringing with it new technology that allows work to be done more efficiently, and enabling companies to increase the wages and salaries they pay to their employees. New capital investment also creates more and better jobs.

**Capital Investment in Ontario Lags the U.S.**

*Business sector machinery and equipment capital stock relative to working-age population, 1989 = 100*



Sources: Statistics Canada and BEA

Ontario does, however, face challenges over the next few years. Existing competitors in Canada and around the world are actively pursuing opportunities to attract innovative, high-value investments and new competitors are emerging as technology links more and more countries around the globe. Moreover, Ontario's cost advantages have been narrowed by an appreciation of the Canadian dollar of about 25 per cent against the U.S. dollar since January 2003.

By investing in education and training, pursuing opportunities for targeted, strategic investments and supporting continuous improvement in the business environment by modernizing regulation, the government is acting to meet these challenges.

## CORPORATE TAXATION

Ontario already has a competitive level of corporate tax rates. The rates remain lower than those in the neighbouring states of the United States. In addition, Ontario is proceeding with phasing out the capital tax, a tax widely acknowledged as detrimental to the investment climate. Ontario also has a very favourable tax rate for small business corporations, which provides strong encouragement to entrepreneurial individuals to start new businesses.

To further support business investment, this Budget proposes to parallel recently announced federal regulatory changes, to align the capital cost allowance (CCA) rates with the useful life of assets and to encourage investment in assets used to generate efficient and renewable energy, subject to federal implementation.

## SECTOR ADVANTAGES AND STRATEGIES

Today, Ontario's skilled workforce, competitive business costs and superior quality of life are tremendous advantages with the potential to attract more international firms seeking access to U.S. markets.

- Ontario's top 10 manufacturing export industries enjoy a major labour skills advantage, particularly in college credentials, as about 48 per cent of their workforce have completed postsecondary education (33 per cent college and 14 per cent university). In the United States, only 32 per cent of the workforce in these industries have completed a similar level of education (nine per cent college and 23 per cent university).
- This skills advantage is enhanced by a labour cost advantage (including health care costs)—seven out of the top 10 manufacturing export industries have a labour cost advantage compared to the United States, ranging as high as 19 per cent for computer and electronics, 16 per cent for the auto sector and 15 per cent for chemicals.

**Ontario's Top 10 Manufacturing Export Industries Have a Substantial Skills Advantage (2001)***

| | Per Cent of Workforce with Completed Postsecondary Education | | | | |
|---|---|---|---|---|---|
| | **Ontario's Skills Advantage*** | College Ontario | College U.S. | University Ontario | University U.S. |
| Motor Vehicle & Equipment | **16** | 32 | 8 | 10 | 19 |
| Chemical | **12** | 33 | 7 | 28 | 41 |
| Machinery | **27** | 47 | 12 | 13 | 21 |
| Primary Metals | **25** | 38 | 8 | 8 | 14 |
| Computer & Electronic | **16** | 33 | 11 | 38 | 44 |
| Plastic & Rubber | **13** | 26 | 8 | 11 | 16 |
| Food | **19** | 26 | 5 | 12 | 14 |
| Pulp & Paper | **16** | 33 | 8 | 9 | 17 |
| Fabricated Metals | **25** | 39 | 8 | 9 | 13 |
| Furniture | **18** | 26 | 8 | 10 | 10 |
| Total | **16** | 33 | 9 | 14 | 23 |

* Per cent of Ontario's workforce with completed postsecondary education minus that of the U.S. Ages 25 and older.

Numbers do not add due to rounding.

Sources: Statistics Canada (Census), Bureau of Labour Statistics (CPS) and Ontario Ministry of Finance comparisons based on OECD standardized educational attainment categories.

Recently released Statistics Canada data[1] show that, over the past five years, Ontario (with 41 per cent of Canada's GDP) attracted 50 per cent of all the machinery and equipment (M&E) investment by foreign investors in Canada. Of all the M&E investment undertaken in Ontario, 39 per cent was by foreign owners. Much of this is in the form of expansion by companies that are already located in Ontario, rather than by new enterprises. Both kinds of investment are important.

However, the Province must continue to invest and innovate in order to remain competitive. Postsecondary and training initiatives are such investments. Strategic public investments can also enhance the competitive advantages of key sectors.

The Ontario Automotive Investment Strategy is bolstering the economy's strong and productive automotive industry through investment in innovation and skills. This will consolidate the foundation for Ontario's leading position in this important industry, with the best-educated, most highly skilled, productive workforce in North America. Supporting the industry's progress in developing innovative processes and technology, the government has committed up to $235 million for GM Canada and $100 million for Ford Canada, leveraging investments totalling $2.5 billion by General Motors and over $1 billion by Ford.

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[1] *Foreign and Domestic Investment in Canada*, Catalogue no. 61-232-XIB, February 2005.

Ontario agriculture enjoys a favourable climate and soils, and proximity to major markets, but has been challenged recently with low grain and oilseed prices and with the interruption of cattle and beef trade.

To help keep the agri-food sector positioned for success, the government has provided over $170 million in support for grain and oilseed farmers, as well as up to $30 million announced last fall to help the cattle industry recover from export restrictions. To enhance consumer confidence in Ontario's meat products, the government is tightening meat safety standards and has provided $25 million to help meat processors meet the new requirements.

Creative industries and people are an emerging engine of economic growth, contributing to dynamic and cohesive communities.

The Entertainment and Creative Cluster comprises the arts, cultural media industries (e.g., publishing, sound recording, film and television production, interactive digital, video game developers), related high-tech companies (e.g., software and post-production houses) as well as independent artists, authors, musicians and filmmakers. There are also extensive linkages with fashion, architecture, graphic and industrial design sectors.

By building on the creativity and diverse skills already found here, the creative industries in Ontario can be leaders in the global marketplace. By targeting the convergence of creativity and technology and broadening the audience for cultural output developed in Ontario, creativity-based enterprises are catalysts for economic growth.

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**Actions to Support an Entertainment and Creative Cluster**

- In addition to enhanced tax incentives for film and television production announced in December 2004, this Budget proposes enhancements to the tax incentives for sound recording, book publishing, interactive digital media and computer animation to promote a competitive and stable environment in which to produce innovative cultural products.
- Strategic investments of $10 million in the Canadian Film Centre and $5 million for the Royal Conservatory of Music's Learning Through The Arts program will support training opportunities to nurture creative talent as the foundation of the next generation of culture and media.
- Provincial commitments to highlight Ontario's cultural renaissance and spirit of diversity will increase cultural tourism. The Lord of the Rings stage show will make its world première early next year in Toronto. Assisted by a $3 million Provincial loan, the show will reinforce the province's international reputation as an entertainment leader. To build on the Toronto International Film Festival's success, the Province has committed $25 million towards a permanent home for the Festival, which has been matched by federal funding.

One of the ways that the creative arts supports economic growth is by attracting tourists to Ontario. The unveiling of new facilities and visions by several major cultural institutions in 2006, such as the Royal Ontario Museum, Canadian Opera Company and Gardiner Museum of Ceramic Arts, will encourage more visitors to experience all that Ontario has to offer.

In line with these moves, Ontario's position as an attractive destination for tourists is bolstered by a new casino in Niagara, which opened in 2004. In addition, $400 million has been committed for improvements to Casino Windsor to encourage economic growth and revitalization opportunities.

The mining industry is benefiting from strong global demand. New opportunities for diamond mining are creating a new industry in the north. Ontario offers potential for other new mineral discoveries as well and continues to spur grassroots mineral exploration with a flow-through share tax credit, in contrast to the elimination of this credit by the federal government in December 2005. As well, the Budget is announcing a $15 million initiative to expand geological surveying in the north.

## MODERNIZING REGULATION

In today's global economy, governments' regulatory reach is pervasive and often overlapping, affecting diverse areas such as justice and property rights, competition, health and safety, labour relations, environment, land use and financial markets. Achieving the correct balance in regulation is critical to unlocking the potential of businesses to adapt to changing markets and seize profitable opportunities to create income while protecting the public interest.

There is considerable international evidence that businesses view the regulatory environment as an important factor when making global investment decisions. Several organizations undertake annual comparisons of interjurisdictional competitiveness, some more specialized in scope than others, but all pay attention to regulatory features.

The OECD studies the regulatory environment in industrialized countries. It has noted the importance of flexible, performance-oriented regulatory standards, which allow business to choose the most efficient means of achieving outcomes. This includes a greater role for self-regulatory processes, such as industry-led standards development and formal self-regulatory organizations (SROs).

One of the critical issues for companies and foreign investors is the efficiency, effectiveness and fairness of business and financial services regulation. To secure Ontario's position as an attractive and secure place to invest, regulators need to continue to move forward to modernize regulation and keep up with a changing global marketplace.

- Ontario's recently announced Small Business Agency will help small business grow and succeed by promoting regulatory best practices, streamlining paperwork and ensuring that small business interests are considered as part of the government's decision-making process.

- Ontario will work closely with the federal government on its Smart Regulation initiative. This effort is intended to lead to better regulations that safeguard the interests of Canadians while securing the right conditions for economic growth.
- Ontario is pursuing initiatives to modernize business law in areas such as commercial and securities law, mortgage brokering and credit union regulation.

**Modernizing Financial Regulation to Support a New Generation of Economic Growth**

- Modern business laws must reflect current market realities and embody high standards of investor protection and corporate governance. An updated commercial law framework would support a competitive business environment that attracts investment and ensures prosperity for the people of Ontario.
- The Minister of Consumer and Business Services will be leading the implementation of a multi-year plan to update Ontario's commercial law framework. Later this year, updated securities transfer legislation will be introduced to address the legal uncertainty that now exists and enhance the competitive position of Canada's capital markets and securities firms. Changes will be proposed to conform Ontario's corporate and securities laws and to reconcile inconsistencies and eliminate duplication. Longer term, comprehensive legislation to modernize Ontario's corporate laws to improve governance and accountability will be developed.
- The government has already responded to several of the recommendations of the Standing Committee on Finance and Economic Affairs (SCFEA) Report on the Five Year Review of the Securities Act. Responding to a key recommendation, legislation was passed in 2004 to allow the government to implement broader rights for investors to sue public companies for disclosing false or misleading information. The government remains committed to quickly completing the final steps needed to implement this change, including the associated regulation changes.
- The Chair of Management Board is leading work to ensure that, later this year, the next round of legislative changes to respond to the SCFEA Report, including some that would support moving to a common securities regulator, will be introduced. Longer term, updated legislation that could serve as the basis for the common set of securities' laws to underpin a common securities regulator will be introduced.
- A common securities regulator is key to making Canada's capital markets more competitive and more efficient. It would reduce the regulatory burden on companies and lead to better and more consistent enforcement, which means greater protection for investors. That would help attract investment to all provinces and territories and help ensure that businesses can access the capital they need to grow and expand.
- The government reaffirms its 2004 Budget commitment to introduce a bill to replace the *Mortgage Brokers Act* in 2005. Following consultations on a discussion paper, in March 2005, the government released for public comment a consultation draft of the *Mortgage Brokerages, Mortgage Lenders and Mortgage Administrators Act* along with draft licensing regulations. The proposed legislation would improve consumer protection, streamline regulatory requirements, ensure cost-effective regulation, and harmonize with other regulatory bodies and jurisdictions where appropriate.
- The review of the *Credit Unions and Caisses Populaires Act* is well underway. The government has been working with the sector to identify proposed changes to the legislation that would modernize the rules and enable credit unions and caisses populaires to better serve their customers and compete in the financial services marketplace. The government reaffirms its intention to introduce amendments to the Act by the fiscal year ending 2006.

- The government is also proposing to update pensions legislation to facilitate the effective administration of multijurisdictional and jointly sponsored pension plans.

### Modernizing Pension Regulation

Employment Pension Plans

- Ontario intends to introduce amendments to implement an accord being discussed between Ontario and Quebec on common pension standards for employment pension plans with members in both provinces. With the assistance of the Canadian Association of Pension Supervisory Authorities (CAPSA), the proposed Ontario-Quebec pension accord is expected to serve as a template for an expanded Canadian agreement, thus simplifying pension regulation for employers with employees working in more than one jurisdiction.

Jointly Sponsored Pension Plans

- The *Pension Benefits Act* (PBA) was written with traditional sole sponsorship, defined benefit pension plans in mind where the employer is solely responsible for making special payments in respect of a going-concern unfunded liability or solvency deficiency. The PBA assumes that plan members are not responsible for making such payments.

- With the establishment of Jointly Sponsored Defined Benefit Pension Plans (JSPs), conflicts may exist between some of the provisions of these plans and the PBA requirements. In order to address these conflicts, the Province will issue a discussion paper that will identify areas of conflict and propose solutions. Legislation to amend the PBA to address these issues will be introduced in the fall and, if approved by the legislature, it is expected that the changes will be in effect before year-end. Amendments to the PBA Regulation would also be required.

- The *Teachers' Pension Act* (TPA) already includes provisions that address some but not all of the identified conflicts. It is proposed that these provisions in the TPA be amended or repealed at the same time as the PBA amendments come into force, as the amendments to the PBA would provide consistent rules for all JSPs.

In February 2005, the Chair of Management Board announced the establishment of a panel of knowledgeable and well-respected individuals from across the country to advance the design of a common securities regulator and demonstrate how it can serve the needs of all provinces and territories. The panel is chaired by Purdy Crawford, an eminent lawyer and corporate leader.

Canada is the only developed nation without some form of national securities regulator. Other countries recognize that deep pools of capital, with broad and active participation of investors and listed companies, are necessary for competitive and effective equity markets.

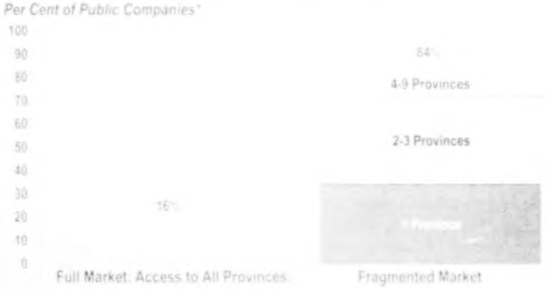
Canada's equity market is only six per cent of the size of the equity market in the United States, our most critical competitor. Only a small proportion of Canadian public companies have access to this larger U.S. pool. Within Canada's relatively small market, only 16 per cent of public companies benefit from access to investors in all provinces.

Fragmented securities regulation means it is unusually difficult and costly for the remaining 84 per cent, mainly small and medium-sized public companies, to raise money. They have access to a limited number of potential investors. These companies have a substantial inherent disadvantage in raising capital relative to their U.S. competitors.

Canada needs a common securities regulator to realize the economic growth opportunities that are created by a competitive and effective equity market. A common securities regulator, a common body of securities law and a single fee structure with fees set on a cost-recovery basis would provide companies and investors with:

- a common interpretation and consistent application of regulatory requirements, which makes compliance more straightforward;
- more effective enforcement of securities laws and therefore greater protection for investors;
- the largest possible capital pool for small and medium-sized public and private companies, wherever they may be located across Canada;
- fewer lost financing and investment opportunities that arise now from delays and complexities of dealing with a number of different laws and regulators;
- one set of clear, consistent protections that is easy for investors to understand; and
- cost-effective regulation.

**Few Canadian Public Companies* Have Access to the Full Canadian Market**



* Reporting Issuers.
Source: Ontario Ministry of [illegible]

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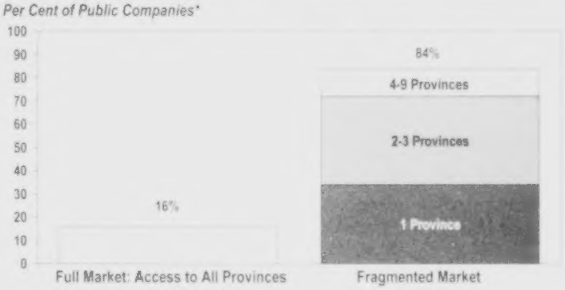


* Reporting Issuers
Sources: Ontario Ministry of Finance based on OSC data

# Section III: Research and Innovation for Economic Growth

Research and innovation are important drivers of economic growth. Through their investments in research and development (R&D), business, governments and research institutions all play key roles in increasing Ontario's innovation capacity.

Public institutions, such as universities, colleges and hospitals, account for about one-quarter of the total R&D performed annually in Ontario, while business accounts for almost all of the rest. Governments provide a competitive R&D tax regime and other incentives to business plus direct funding to institutions undertaking R&D activities.

The 2004 Premier's Progress Report noted a Provincial commitment of $1.8 billion over four years to support both research and commercialization through Ontario's public and not-for-profit R&D institutions. Continued R&D investment is critical to increasing Ontario's innovation capacity, but more can be done. Ontario must encourage partnerships and co-ordination among business, governments and institutions to lever the benefits of R&D investment and bring discoveries to market. This is essential if Ontario is to compete with other jurisdictions, especially in the United States, which can spend more on R&D as a share of economic output partly due to the larger U.S. federal commitment to research (including military).

## GREATER RESEARCH AND COMMERCIALIZATION INVESTMENT

The new Ontario Research Fund (ORF) will consolidate several Ontario research programs that have been funded separately in the past, totalling $730 million to 2007-08, for new and ongoing research commitments. This includes the new $300 million investment in research infrastructure announced by the Premier last fall.

A consolidated Ontario Research Fund will provide operating, capital and overhead funding to support leading-edge R&D in Ontario's research institutions. Priority will be given to research in key economic sectors, including automotive, agriculture, advanced manufacturing technologies, biotechnology, information and communications, alternate energy/fuel cells, environmental technologies and nanotechnology. The Fund will also support efforts to connect youth to researchers, and attract, develop and retain world-class research talent.

Also, the government is moving towards a more co-ordinated, stable cancer research system in the province by consolidating the new Cancer Research Program with the existing Ontario Cancer Research Network.

The Cancer Research Program will build on Ontario's existing strength in cancer research by developing a "critical mass" of cancer researchers. Working in partnership with the cancer research community in Ontario, this program will help make Ontario a recognized, leading jurisdiction in cancer research that will retain and attract the best researchers and clinicians to the province. The program will focus on supporting leading-edge cancer research across disciplines; multidisciplinary population studies of causes; prevention and early detection of cancers; translating research into programs, technologies and therapies; and working with industry to commercialize research results. Through 2007-08, the Province of Ontario will commit $142 million for cancer research.

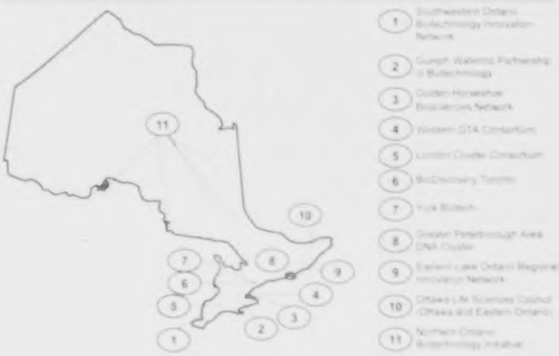
The Minister of Economic Development and Trade will announce the details of the ORF, including a call for proposals, and the Cancer Research Program in the near future.

As the next step, the Ontario Government proposes to establish a Research Council of Ontario. The Research Council of Ontario is a strategic economic initiative of the government to help make Ontario a North American leader in research and to promote the province's innovation opportunities to the world.

Through greater co-ordination and alignment of public research and commercialization investments, and better dialogue with industry to identify research areas and opportunities of mutual interest, Ontario's economy can realize a greater productivity boost than it otherwise would. Details of the new Council will be announced in the fall of 2005.

Complementing the proposed Research Council of Ontario is a new commercialization framework based on a system of "regional innovation networks." These are multi-stakeholder, regional development organizations established with Provincial funding that support partnerships among business, institutions and local governments to promote innovation. While initially focused on the life sciences, Ontario's 11 active regional networks are expanding into other areas of innovation excellence such as information technology, energy conservation, and advanced materials—depending on their local strengths and opportunities.

**Ontario's Commercialization Framework: A System of Regional Innovation Networks**


1 Southwestern Ontario Biotechnology Innovation Network
2 Guelph Waterloo Partnership in Biotechnology
3 Golden Horseshoe Biosciences Network
4 Western GTA Consortium
5 London Cluster Consortium
6 BioDiscovery Toronto
7 York Biotech
8 Greater Peterborough Area DNA Cluster
9 Eastern Lake Ontario Regional Innovation Network
10 Ottawa Life Sciences Council (Ottawa and Eastern Ontario)
11 Northern Ontario Biotechnology Initiative

One of the benefits of these networks is that they can bring commercialization services closer to the clients that need them—small firms, researchers, entrepreneurs and investors. The regional networks can also facilitate access to other commercialization resources, including the Ontario Centres of Excellence, the new Medical and Related Sciences (MaRS) centre, the Ottawa Centre for Research and Innovation, and Communitech.

**Local Science for Global Impact**

The following are some examples of how the Ontario Government will strengthen regional capacity for innovation:

- $10 million will help support the establishment of the McMaster Innovation Park, to be built on a former industrial "brownfield" site in Hamilton. The new park will become a focal point for industry, governments and institutions working together to support research excellence and innovation in advanced materials and manufacturing, nanotechnology and bioscience.
- The Ontario Government has provided support for the expansion of the Sudbury Neutrino Observatory Institute, a world-renowned, state-of-the-art research centre. Retail sales tax relief was provided on the Institute's purchase of research equipment for its International Facility for Underground Science project.
- Over three years, the provincial government is investing $6.5 million in the Medical and Related Sciences (MaRS) centre to help market Ontario's technology opportunities to the world.
- A $3 million endowment to establish a research chair at the University of Guelph, which is one of Canada's leading universities in bio-agricultural research. The government will also provide $3 million to the University of Toronto to establish a research chair in productivity and competitiveness.

## INCREASING COMMERCIALIZATION OF RESEARCH

By strengthening linkages between business and institutions at the regional level, Ontario's new commercialization framework will also play a pivotal role in creating business opportunities for the province's venture capital market.

Venture capital is an essential ingredient for commercializing new technologies. While the venture capital market in Ontario has matured substantially over the past two decades, it is often a challenge to raise capital in the earlier stages of high-risk technology businesses, especially those coming from research in universities and hospitals.

The recently established Ontario Commercialization Investment Funds program will encourage research institutions to partner with accredited investors in commercializing research developed by faculty, staff and students. As well, the Ontario Research Commercialization Program will help researchers and institutions develop their inventions to an "investor-ready" state.

While these programs are being implemented, the Ontario Government will continue examining other focused approaches to overcoming bottlenecks in the commercialization of research and the creation of new businesses. In addition, the government is studying the broader venture capital market, and the role of Labour Sponsored Investment Funds (LSIFs) within the industry. The review of the LSIF program, which the government announced in the 2004 Budget along with a moratorium on new registrations, has been proceeding over the past year. It is expected that the results of this review will be released later this spring.

Overall, the benefits from Ontario's new commercialization framework will depend on a strong supportive climate for business innovation. Through modern smart regulation and various tax improvements, the government has taken steps to help financial markets work better.

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**Regulatory and Tax Environment Supports Innovation**

The regulatory and tax environment in Ontario has improved dramatically over the past two decades, making private equity markets much more attractive to risk-taking in venture investments:

- the Ontario Securities Commission (OSC) has modernized its regulations to facilitate access to capital for small businesses from accredited investors and capital pools;
- federal and provincial investment regulations affecting institutional investors, such as pension funds and insurance companies, have been modernized since the mid-1980s to allow a more flexible "prudent portfolio" approach to investments;
- the combined federal and provincial capital gains tax has been cut almost in half, and the capital gains rollover provisions for angel investors have been substantially improved; and
- the federal tax regime governing foreign investment has been liberalized since 2000.

# Section IV: Strengthening Infrastructure, the Foundation of Ontario's Economy

For Ontario's economy to reach its full potential, it must be supported by an effective system of physical infrastructure—one that provides efficient transportation for goods and people, clean drinking water and adequate, reliable power supplies. In order to effectively support higher living standards, infrastructure investments must strike a balance between the needs of Ontario's open, export-oriented economy and considerations such as public health and the environment.

The government has important roles as both a provider and co-ordinator of physical infrastructure. However, as noted in Paper A, *Investing in People—Managing Ontario's Finances*, Ontario faces a challenging fiscal environment that must be addressed in a responsible, balanced manner.

The Province's five-year infrastructure plan includes major new investments in health, education and the economy. The total value of these investments is more than $30 billion.

**Ontario's Five-Year Infrastructure Plan Highlights**

- Funding new, upgraded and expanded hospitals to reduce wait times, provide better services in high growth areas, and modernize older hospitals.
- A substantial expansion of graduate school spaces to accommodate the double cohort as it progresses through the system, as well as new medical school spaces to expand the supply of doctors.
- A multi-year investment in elementary and secondary school renewal that is expected to generate $4 billion in investments in the next few years.
- An enhanced Canada-Ontario Affordable Housing Program that will help create over 15,000 new units of affordable housing, including housing in remote communities and supportive housing for victims of domestic violence and for persons suffering from mental illness.
- Substantial improvements in border infrastructure to foster increased trade with the United States and make travel across the border quicker and easier.
- Continued high levels of transit investment in partnership with other levels of government: $1 billion over 10 years for GO Transit expansion and renewal, $1 billion over five years for the Toronto Transit Commission, and $600 million for the Ottawa O-Train.
- The first round of projects under the new Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF), which will stimulate up to $900 million through federal, Ontario and municipal contributions. Many local water, wastewater, road and bridge projects will be funded in rural communities and small urban centres.
- Meeting the government's 2004 commitment to invest $300 million over four years in research infrastructure, so that Ontario's universities, hospitals and research institutes can continue to attract the best and the brightest, and help the economy grow.
- Acceleration of the four-laning of both Highway 11 and Highway 69 in northern Ontario.
- Highway expansion projects to support economic growth, relieve congestion and address significant safety issues in southern Ontario.

In addition, another round of financing is planned by the Ontario Strategic Infrastructure Financing Authority (OSIFA), an innovative loan program that is helping communities renew infrastructure of local importance, such as clean water, public transit, and roads and bridges.

Despite this significant investment, the need for capital in areas such as health, the environment and transportation remains substantial. The government will also consider the potential for strategic asset management initiatives. The Province will be guided by protecting and promoting the public interest, value for money and meeting government priorities. Net proceeds from asset sales will not be used for ongoing operating expenses and, as a first priority, will be invested in infrastructure improvements.

## ELECTRICITY

A reliable, sustainable and diverse electricity sector is vital to building a strong and prosperous Ontario. Last year, the government passed the *Electricity Restructuring Act, 2004* to reorganize Ontario's electricity system to more effectively address the critical need for new supply, boost conservation and increase price stability for consumers across Ontario. The Act created the Ontario Power Authority (OPA) with a mandate to ensure an adequate, long-term supply of electricity and a Conservation Bureau led by the province's first Chief Energy Conservation Officer.

By 2020, Ontario will need to refurbish, rebuild, replace or conserve approximately 25,000 megawatts of generation to meet the province's growing demand. The government has taken steps to create new, clean, reliable and affordable sources of electricity supply, including working with its neighbours to the east and west to explore developing further hydroelectric projects to address the province's long-term supply needs.

To ensure power is delivered where it is needed, Hydro One, the company that owns the bulk of Ontario's transmission system, is currently investing in upgrades to meet growing demand and connect new generation projects to the grid.

- New supply projects will develop a diverse array of power sources and have the potential to add over 5,000 megawatts of new supply projects in Ontario.
  - On April 13, 2005, four new electricity projects, including a cogeneration project, two new gas-fired generation plants and one demand response project, were approved with a total capacity of 1,675 megawatts.
  - In November 2004, the government approved projects that will provide Ontarians with 395 megawatts of clean, renewable energy from such sources as wind, waterpower, landfill gas and biogas.
  - Construction of the Niagara Tunnel, which will carry water from the Niagara River to OPG's Sir Adam Beck generating complex, is expected to begin in the summer of 2005.
  - In July 2004, OPG was given approval to return an additional 515-megawatt unit at Pickering to service. In March 2005, a tentative agreement was reached with Bruce Power to restart two 750-megawatt units at the Bruce "A" nuclear facility in Kincardine. The government is in the process of completing its due diligence on this proposal.
  - In April 2005, the government requested additional proposals for the generation of up to 1,000 megawatts from renewable sources.
  - The government is working on partnering with neighbouring jurisdictions on major hydroelectric projects. In September 2004, the government announced a detailed technical study on the Clean Energy Transfer Initiative (CETI) and proposed hydroelectric projects in northern Manitoba and a transmission line that would bring power from Manitoba to Ontario. In March 2005, the government submitted a joint proposal with Hydro-Quebec and SNC-Lavalin to support Newfoundland and Labrador in the development of two major hydroelectric generation projects on the Lower Churchill River in Labrador.

As well as providing for an increase in energy supply, the government has made conservation a top priority, setting a conservation target of five per cent for Ontario by 2007 and committing to reduce its own electricity use by at least 10 per cent by 2007. To achieve this goal, the Conservation Bureau will co-ordinate and foster conservation initiatives, including demand-side management programs.

To support conservation, smart meters will be installed in every home by 2010, giving electricity consumers the ability to reduce and shift their demand in response to electricity prices.

## INVESTING IN ROADS AND MUNICIPAL INFRASTRUCTURE

### *Key Highway Investment Examples*

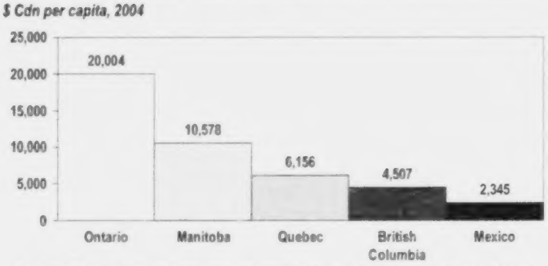
Roughly 70 per cent of freight shipped in Ontario—trucks travelling six million kilometres each and every day—use roadways within the Greater Golden Horseshoe. Increasing traffic volumes throughout the region are slowing down goods movement, resulting in lost productivity. As a result, investments to ensure the highway network is in a good state of repair and has adequate capacity are critical. This Budget includes a significant increase in highway rehabilitation investments over the next five years to improve highway conditions.

Projects in southern Ontario will focus on improvements to Highway 401 and the QEW throughout the Greater Golden Horseshoe and on other trade corridors, such as Highway 417 in Ottawa. The government has also begun to plan options for new corridors throughout the province, including a Niagara-GTA corridor, Highway 407 East Completion and extensions to Highways 404 and 427. Easing border congestion is also a key element in promoting strong economic growth across the province. The Ontario Chamber of Commerce estimates that border congestion costs the Ontario economy over $5 billion annually.

Border traffic has grown considerably in the last decade due to the shift to just-in-time inventory systems and to the signing of free trade agreements with the United States and Mexico.

On a per-capita basis, the value of trade by truck between Ontario and the United States is notably greater than that of Mexico or any other province with the United States.

**Trade-by-Truck Across the U.S. Border with Selected Provinces and Mexico**



*Note:* Imports from the U.S. to Canadian provinces are measured at the province in which Canada Customs cleared the shipment, which may not be the province of final destination for the shipment. Per-capita value for Mexico based on 2003 population data.
*Sources:* U.S. Bureau of Transportation Statistics, Statistics Canada, The World Bank Group; calculations by Ontario Ministry of Finance.

On April 21, 2005, the Province and the federal government committed a total of $129 million to move forward with a number of initiatives in response to the recommendations contained in the recent Schwartz Report on the Windsor Gateway. On April 20, 2005, the Province also announced that it will fund the municipal environmental assessment for the proposed Huron Church truck bypass, a key recommendation of the Schwartz Report. If the environmental assessment study is approved, the Province will also provide up to $150 million for the construction of the truck bypass.

These projects will complement efforts already underway by the Canadian and U.S. governments to reduce crossing times across the Windsor-Detroit border by 25 per cent over the next year, by providing additional resources for processing commercial traffic.

### *Supporting Investments in Municipal Infrastructure*

Key investments in municipal infrastructure are needed to support economic development and address health and safety concerns. For example, transit investments are necessary to improve mobility in urban centres and relieve pressure on strategic corridors for the movement of goods. Improved transit services attract new riders, reduce the amount of time people must spend commuting and help reduce emissions that are harmful to the environment.

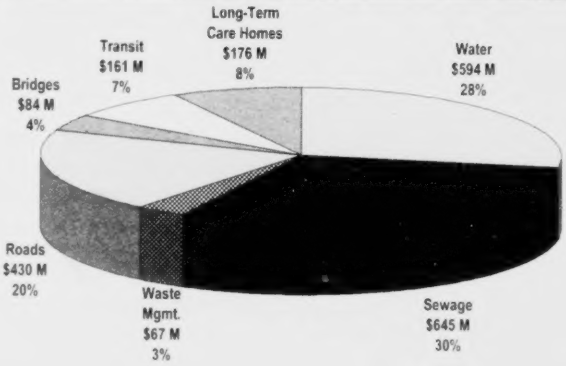
A number of initiatives are underway to help municipalities finance these projects. Investments under the Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF) as well as the Ontario Strategic Infrastructure Financing Authority (OSIFA) loan program are helping communities renew and improve infrastructure such as local roads and bridges, and water and wastewater facilities.

OSIFA is an innovative financing vehicle that provides Ontario's municipalities and other broader public-sector partners with access to low-cost and longer-term loans to renew and build critical public infrastructure. OSIFA funds its low-cost and longer-term loans through the sale of Infrastructure Renewal Bonds.

OSIFA currently provides infrastructure renewal loans to Ontario's municipalities. To date, OSIFA has committed to provide 166 municipalities with $2.1 billion in low-cost and longer-term loans for more than 1,000 local infrastructure projects in eight critical areas:

- clean water infrastructure;
- sewage infrastructure;
- municipal roads;
- municipal bridges;
- waste management infrastructure;
- public transit;
- municipal long-term care homes; and
- renewal of municipal social housing.

**OSIFA Loan Portfolio Distribution**



OSIFA's infrastructure renewal loans are making a real difference in communities across Ontario, from Red Lake in northwestern Ontario, to St. Thomas in southern Ontario, to Kingston in eastern Ontario. The majority of municipalities (146 out of 166 municipalities) borrowing from OSIFA are smaller communities with populations under 100,000. Smaller communities, especially smaller rural and northern communities, achieve significant savings by borrowing through OSIFA. Collectively, the municipalities participating in OSIFA's loan program are saving millions of dollars in interest charges and transaction fees over the life of their loans—savings that benefit local taxpayers.

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### New Directions for OSIFA

Beginning in 2005-06, the OSIFA loan program is being broadened so that Ontario's municipalities will be able to use OSIFA's low-cost and longer-term infrastructure renewal loans to support investments in local culture, tourism and recreation infrastructure projects that promote economic development and improve quality of life for residents. OSIFA's infrastructure renewal loans provide municipalities with the financial flexibility they need to build vibrant and prosperous communities.

Later this year, universities will be able to apply for the same low-cost and longer-term loans that municipalities have been using to make critical investments in their communities. OSIFA's infrastructure renewal loans will provide universities the financial flexibility needed to remain world-class educators and innovators by investing in facilities that support student education and academic research.

Energy conservation projects will be a key OSIFA priority for both the municipal and university sectors.

Ontarians will be able to invest in infrastructure projects in their communities by purchasing retail Infrastructure Renewal Bonds (IRBs). Retail IRBs will provide Ontarians with a solid investment for their future and the future of their communities. OSIFA will use the proceeds raised from the sale of IRBs to provide low-cost and longer-term infrastructure renewal loans to Ontario's municipalities and universities.

# Section V: Unlocking the Potential of Ontario's Cities and Regions

All cities and regions contribute to Ontario's wealth generation potential and quality of life. Between 1994 and 2004, all regions in Ontario experienced positive growth rates for both employment and GDP, but economic growth is not automatic, and different cities and regions are on different paths.

Helping all areas of Ontario to contribute and share in growing prosperity is a key Provincial priority. With investments in skills and infrastructure, the government can help cities and regions to develop a competitive social and business environment that attracts investment and jobs. The federal and municipal levels of government must also make investments and implement programs to complement Ontario's efforts.

## URBAN GROWTH AND THE GREATER GOLDEN HORSESHOE

The population of the Greater Golden Horseshoe[2] is expected to grow from 8.2 million in 2004 to 11.5 million by 2031. In 2004, this region is estimated to have contributed approximately 70 per cent of Ontario's GDP and 29 per cent of Canada's GDP,[3] and represents the heart of Ontario's export-oriented economy. The region's proximity to U.S. markets is a major advantage.

The Greater Golden Horseshoe provides employers with access to a highly skilled and richly diversified labour force. The area is also Canada's most popular destination for new Canadians. While the influx of people into the Greater Golden Horseshoe has strengthened its economic potential by expanding the labour force and increasing demand for goods and services, the rapid growth in population has also placed pressure on infrastructure and on health, education and municipal services.

The government has responded by setting the stage for a more co-ordinated approach, through supporting infrastructure investments and enhanced redevelopment tools. This includes the following initiatives:

- developing a comprehensive growth plan that will help guide development and infrastructure investment decisions in the Greater Golden Horseshoe over the next three decades;
- partnering with the City of Toronto and the federal government in a $1 billion, five-year Toronto Transit Commission (TTC) transit investment plan;

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[2] The Greater Golden Horseshoe includes Brant; Dufferin; Durham; Haldimand; Halton; City of Hamilton; Kawartha Lakes; Niagara; Northumberland; Peel; Peterborough; Simcoe; City of Toronto; Waterloo; Wellington; and York.

[3] Estimates from Centre for Spatial Economics and Statistics Canada.

- funding transit throughout the Greater Golden Horseshoe through the sharing of gas tax revenues and $514 million in transit grants and subsidies;
- strengthening transit links in the region through the proposed establishment of a Greater Toronto Transportation Authority (GTTA);
- working with the federal government to secure a comprehensive immigration agreement;
- building on existing tools for brownfield redevelopment to discourage sprawl and encourage infill development; and
- examining options for the development of potential legislation to implement Tax Increment Financing (TIF), a financial tool to promote urban regeneration.

A discussion of the Greater Golden Horseshoe would be incomplete without recognizing the unique role of the City of Toronto. The City's share of the Greater Golden Horseshoe population and its significant contribution to Ontario and Canadian GDP highlight the importance of Toronto to Ontario's economic prosperity.

In addition to its size and strategic location, Toronto has been identified as the most advanced of Canada's international cities. As Canada's leading city, Toronto is in competition with other nations' leading cities such as London, Frankfurt, New York, Los Angeles and Hong Kong.[4]

The Ontario Government is engaged in consultations with the City of Toronto regarding governance and fiscal tools.

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[4] A 2002 study by the Globalization and World Cities Research Group and Network, which ranked major cities against the benchmark of London.

**Strengthening Ontario Through an Empowered Toronto**

Toronto contributes roughly 46 per cent of Ontario's GDP, and 19 per cent of Canada's GDP.[5] The strength of Toronto is demonstrated by the diversity in the range of local economic activities, including research and financial services, as well as cultural and entertainment sectors. The City manages Canada's largest transit system and provides a broad range of services to one of the most diverse populations on earth.

Ontario recognizes the City of Toronto as a mature level of government that must become self-reliant and financially sustainable in order to prosper in the global economy. As a result, the Province is working closely with Toronto officials to complete the *City of Toronto Act* review, which will result in proposed legislation to modernize the City's governance and fiscal framework. In return for the proposed expanded powers, the Province would ensure that Toronto meets the rigorous accountability requirements that taxpayers demand.

Canada, Ontario and City of Toronto officials are working to establish a tri-lateral framework agreement. This agreement will outline how the three levels of government will collaborate on urban development issues. The City has identified the Regent Park Revitalization project as its first priority under the proposed agreement. This will lead to the renewal of a 50-year-old public housing project to physically reconnect and reintegrate this community with the surrounding neighbourhoods. Bringing new vitality and business to the east downtown area, the new Regent Park will become a model of economic, social, environmental and cultural sustainability.

Throughout 2005-06, the Province will also continue to work with Toronto on shared challenges such as transit investment and the renewal of public infrastructure to ensure that the City retains its prominence as an attractive place to live, work and invest.

Alongside the economic power provided by the Greater Golden Horseshoe and Toronto, it is also important to recognize the economic growth and diversity that all Ontario cities contribute to the Ontario and Canadian economies.

## *Strong Cities and Urban Networks*

With a critical mass of people, infrastructure and industrial diversification, cities are valuable hubs for innovation and key assets for their regional economic networks. Cities are able to sustain deep pools of entrepreneurs, investors, researchers and firms providing critical business services. These pools are essential for turning raw ideas into new products and services to be commercialized and sold in the global marketplace.

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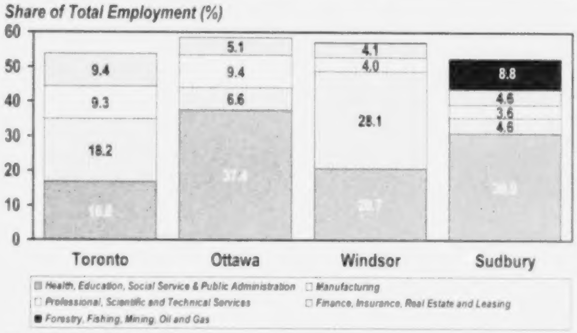
[5] Conference Board of Canada, for the Toronto Census Metropolitan Area.

Having said this, Ontario's cities are not all the same. They vary considerably in their industrial makeup, size, infrastructure and market relationships—including their linkages to surrounding rural areas.

Ontario's cities and municipalities play important roles as locations for business. Appropriate Provincial support is necessary to ensure that they can continue to provide world-class settings for employment, investment and quality of life.

**Major Employment Sectors, 2004**
**Selected CMAs**



Source: Statistics Canada

## STRONG, SUSTAINABLE MUNICIPALITIES

Many of the services that help make Ontario businesses competitive—such as water, waste collection, transit and roads—are delivered at the local level. The Province recognizes the important role that all municipalities play in delivering these services, and believes that ensuring well-funded, efficient municipal services contributes to the economy by creating greater certainty for investors and maintaining a high quality of life for residents.

In an effort to create greater transparency within the municipal sector, the government has re-examined the municipal-provincial fiscal relationship and has introduced the Ontario Municipal Partnership Fund (OMPF), a new funding formula that is fairer and easier to understand than the previous Community Reinvestment Fund (CRF) grant.

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**Ontario Municipal Partnership Fund**

The Ontario Municipal Partnership Fund (OMPF) was introduced in 2005 to replace the Community Reinvestment Fund (CRF) as the Province's main transfer program for funding municipalities. The OMPF is a fairer, more transparent program providing similar municipalities with similar funding. Through a clear and understandable system of grants, the new model:

- assists municipalities with their social program costs;
- includes equalization measures;
- addresses challenges faced by northern and rural communities; and
- responds to policing costs in rural communities.

Eligible municipalities will receive $656 million through the OMPF in calendar 2005. This represents an increase of $38 million, or 6.1 per cent, over CRF funding received in 2004.

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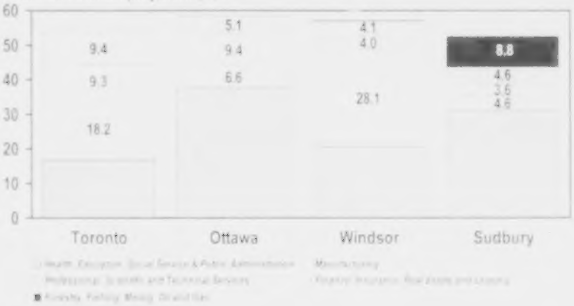
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The government is also undertaking a range of initiatives to support the municipal sector, which include the following:

- effective October 2004, providing municipalities with one cent per litre of Provincial gas tax revenues. The share of Provincial gas tax revenues will increase to one and a half cents per litre in October 2005 and two cents per litre in October 2006. By the end of 2007-08, over $858 million of Provincial gas tax revenues will be invested in 83 transit systems, serving 110 municipalities;
- working with Ontario municipalities to ensure they receive their fair share of the federal gas tax funding;
- increasing the Provincial share of public health costs from 50 per cent in 2004 to 75 per cent by 2007;
- implementing a new comprehensive affordable housing strategy with the Government of Canada to create more than 15,000 affordable housing units in Ontario's municipalities;
- ensuring that the province's drinking water remains clean and safe, the government is investing $209 million in infrastructure that treats and distributes water and that collects and treats wastewater. This is in addition to investments to be made through COMRIF. An additional $7 million, for a total of $49 million over five years, is being invested to help municipalities and others map watersheds, analyse water quality and quantity in watersheds, and identify potential threats;
- bringing greater accountability and transparency to land-use planning by passing the *Strong Communities (Planning Amendment) Act*, which puts planning decisions back in the hands of municipalities; and
- strengthening the provincial-municipal relationship by signing an agreement with the Association of Municipalities of Ontario (AMO) that gives municipalities a say in federal-provincial negotiations that directly affect municipalities.

## STRENGTHENING RURAL ECONOMIES

There are significant economic benefits that Ontario's rural communities can derive from improved economic linkages with their neighbouring cities and urban centres. Ontario is strengthening these urban-rural networks, by encouraging neighbouring municipalities to pursue shared interests and complementary benefits that lever local diversity and promote growth and prosperity in all cities and regions.

As Ontario's rural plan *Strong Rural Communities* notes, "The success Ontario enjoys as the economic engine of the country owes much to the strengths of our rich agriculture, forestry, mining and manufacturing sectors. In fact, many auto parts manufacturers and their suppliers are located in rural Ontario." Reflecting these strengths, rural communities have performed relatively well over the past two decades, especially when compared to the rest of rural Canada.

To encourage future growth in Ontario's rural communities, the government is focused on strengthening the economic linkages between Ontario's rural and urban centres by investing in the infrastructure that links communities across the province, and the education and skills that will attract investment and jobs. In keeping with these objectives, the government has launched a comprehensive plan for rural Ontario that provides a policy framework to guide future investment.

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**Rural Investments**

Ontario is contributing $298 million to the Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF), a partnership with the federal government and municipalities that addresses local priorities in rural Ontario. Over five years, this initiative is expected to stimulate up to $900 million in infrastructure investments. Other rural investments include:

- $28 million in 2005-06 for Rural Economic Development (RED) projects;
- $31 million, announced in September 2004, to strengthen programs, services and staffing in rural schools; and
- $14 million in telemedicine technology in 2004-05 to deliver health care services to more remote Ontario communities.

The Province has also provided support to grain and oilseed farmers, the cattle industry, and communities and farmers transitioning from tobacco production.

## A PLAN FOR NORTHERN PROSPERITY

Building on the Northern Prosperity Plan announced in the 2004 Budget, the government remains committed to growing the northern economy and promoting the north as a region with untapped economic potential. Key elements of this plan include programs that market the north's strengths to potential investors within Ontario and internationally, and initiatives to support northerners in investing in their own communities.

These and other initiatives are helping to reinvigorate Ontario's northern communities, provide opportunities for youth in the region, and rekindle a spirit of optimism about the north's future.

Recent employment growth in northern Ontario is encouraging. The region added 5,500 jobs in the last year. Its two largest cities, Sudbury and Thunder Bay, recorded net job gains of 1,300 and 700 respectively.

In 2005-06, the government will expand the Northern Prosperity Plan to include support for geological mapping that will open up the mining potential in the Far North. A total of $15 million will be invested over three years.

Other initiatives to support northern communities include:

- Investment of approximately $297 million for northern Ontario highway rehabilitation and expansion projects. This includes moving forward with the completion of four-laning projects on Highways 11 and 69, in seven and 12 years respectively.
- A renewed annual contribution of $60 million to support the Northern Ontario Heritage Fund Corporation's (NOHFC) new mandate. The new mandate focuses on private-sector job creation, youth, community development, emerging technologies, telecommunications and energy

conservation. In addition to this significant contribution, in 2005-06, NOHFC will spend $55 million for commitments made under the previous NOHFC mandate that focused on community infrastructure initiatives.

- The Northern Ontario Grow Bonds pilot program. Issued exclusively to northerners, Grow Bonds offer an annual return of four per cent for a fixed five-year term. Proceeds from approximately $13 million worth of bonds will be used to provide loans to new and growing businesses in northern communities.
- $5 million to support the Government of Ontario (GO) North investor program, an international marketing campaign launched in 2004 to showcase the north's competitive advantages and attract large-scale investments to northern municipalities.
- Establishment of a new community-based nursing education pilot in northern Ontario.
- The new Northern Ontario School of Medicine will welcome its first class in the fall of 2005 on two main campuses in Thunder Bay and Sudbury. The school will have additional teaching and research sites across northern Ontario contributing to improving the health of people living in small and large communities across this region.
- The government announced consultations on Provincial Land Tax (PLT) reform in the 2004 Budget. The government is currently reviewing feedback from the consultations and will be reporting shortly.

# Conclusion

This Budget outlines the government's strategy to foster a strong, innovative economy and supports the objectives outlined in the fall 2004 Premier's Progress Report *Getting Results for Ontario: A Progress Report.* The investments and initiatives outlined in this Budget will help to bring real, positive improvement to Ontario's standard of living and enhance the productivity of Ontario's economy in years to come.

Underpinned by a firm commitment to fiscal discipline, the government's plan for a new generation of economic growth will:

- launch the McGuinty Government Plan for Postsecondary Education;
- maintain a competitive tax environment;
- modernize regulation;
- invest in key sectors;
- spur innovation;
- invest to renew and enhance Ontario's physical infrastructure; and
- unlock the economic potential of Ontario's cities and regions.

This strategy will make significant progress towards unlocking Ontario's full potential. However, results could be achieved even faster with active support from Ontario's municipal governments, as well as federal government investments in Ontario commensurate with Ontario's important role in Canada's future prosperity.

With all stakeholders working together, Ontario can become *the* place to live, work and invest.

# PAPER B: APPENDIX

Ontario's Economic Outlook

# Introduction and Overview

This appendix sets out the macroeconomic projections underlying the 2005 Budget fiscal plan.

Growth is expected to remain moderate in 2005, with real gross domestic product (GDP) increasing by 2.0 per cent, reflecting the appreciation of the Canadian dollar, high oil prices and an easing in the pace of economic growth in the U.S. economy. These factors are expected to restrain employment gains to 1.0 per cent, or 65,000 jobs, in 2005. Growth will be slower than in 2004, when Ontario real GDP rose by 2.6 per cent, rebounding from a series of shocks that slowed growth to 1.6 per cent in 2003.

Over the longer term, the prospects for Ontario's economic growth are brighter and real output is forecast to rise by 2.8 per cent in 2006, 3.4 per cent in 2007 and 3.3 per cent in 2008. This stronger showing will help raise the pace of job creation, lowering the unemployment rate and bringing about stronger income growth for Ontarians. Based on the outlook for growth in the economy, Ontario total taxation revenues are forecast to increase 4.1 per cent in 2005-06 and by an average of 4.9 per cent over the following three years.

**Ontario Economic Highlights**
**(Annual Average, Per Cent)**

| | 2003 | 2004 | 2005p | 2006p | 2007p | 2008p |
|---|---|---|---|---|---|---|
| Real GDP Growth | 1.6 | 2.6 | 2.0 | 2.8 | 3.4 | 3.3 |
| Nominal GDP Growth | 3.1 | 4.7 | 3.9 | 4.6 | 5.3 | 5.3 |
| Unemployment Rate | 7.0 | 6.8 | 6.7 | 6.5 | 6.3 | 6.1 |
| CPI Inflation | 2.7 | 1.9 | 2.1 | 1.9 | 1.8 | 1.8 |

p = projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

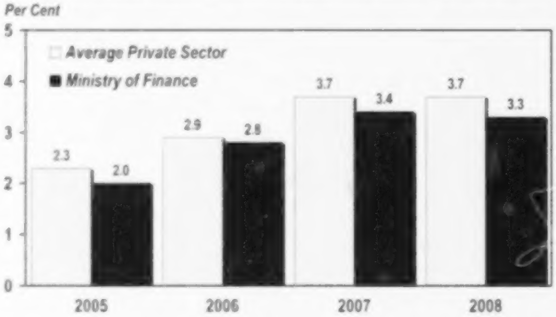
# Private-Sector Economic Forecasts

The Ontario Government draws on private-sector economic forecasts as a guide for building prudent economic projections on which to establish revenue forecasts. Typically, the assumptions about economic growth in budgets have been below the average prediction of private-sector forecasts. The chart to the right compares the average private-sector forecast for Ontario real growth over the next four years with the assumptions used in the Budget.

The following table shows the projections for Ontario real economic growth of private-sector forecasters.

**Ontario Real GDP Growth Projections**

**Ministry of Finance Compared to the Average Private-Sector Forecast**



Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (May 2005)

**Current Private-Sector Forecasts for Ontario Real GDP Growth (Per Cent)**

| | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| Conference Board (April) | 2.1 | 2.9 | 3.4 | 3.4 |
| Global Insight (January) | 2.8 | 2.7 | 3.9 | 3.8 |
| Centre for Spatial Economics (April) | 2.4 | 3.3 | 3.6 | 3.6 |
| University of Toronto (April) | 1.4 | 3.1 | 4.0 | 3.8 |
| Bank of Montreal (April) | 2.7 | 3.6 | – | – |
| RBC Financial (March) | 2.4 | 3.0 | – | – |
| Scotiabank (March) | 1.9 | 2.0 | – | – |
| TD Bank (March) | 2.2 | 3.2 | – | – |
| Nesbitt Burns (April) | 2.4 | 2.8 | – | – |
| CIBC World Markets (March) | 2.2 | 2.8 | – | – |
| **Average** | **2.3** | **2.9** | **3.7** | **3.7** |

Source: Ontario Ministry of Finance Survey of Forecasts (May 2005).

The *Fiscal Transparency and Accountability Act* provides for a mechanism that will refine and increase the openness of the economic assumptions used in budget-making. The Act directs the Minister of Finance to establish an Economic Forecast Council to "provide advice relating to macroeconomic forecasts and assumptions to be used to prepare the Budget and the related fiscal plan." Meeting with private-sector economists early in the budget-preparation process helped to inform the Budget's economic and fiscal projections. It also provided a forum for professional advice about policy priorities and the economic challenges that Ontario faces.

## The Economic Environment

Ontario is part of an interconnected global economy. In 2004, international exports of goods and services were equivalent to 44.5 per cent of total nominal GDP. This means the health and growth of the Ontario economy depend to a large degree on developments beyond its borders, and especially on the state of the U.S. economy. Each sustained percentage point increase in U.S. real growth adds 0.3 to 0.7 percentage points to real growth in Ontario in the first year. The range largely reflects the fact that the impact on Ontario growth depends on the specific source of the change of U.S. growth.

Although the private-sector economists who met with the Minister of Finance agreed that the most probable outcome for the Ontario economy was one of continued growth, they stressed the need to be aware of and take into consideration the risks that could arise from potentially adverse developments in the world economy.

Ontario's international trade, for example, depends on the path of Canada's exchange rate. Estimates based on historical relationships suggest that a five-cent rise in the Canadian dollar against its U.S. counterpart reduces Ontario growth by 0.2 to 0.9 percentage points in the first year. This wide range reflects a number of uncertainties, such as the extent to which firms pass through lower costs for imports, because of the higher Canadian dollar, to prices for goods and services in Canada.

The prices of key commodities upon which Ontario producers rely, such as crude oil, are determined in world markets. Conflicts in other parts of the world can materially affect these prices. A sustained $10 US per barrel increase in the price of world crude oil trims Ontario's real growth by 0.3 to 0.7 percentage points in the first year. This impact also assumes natural gas prices rise in the same proportion as oil prices, since they are substitute sources of energy. The range is due in part to uncertainty regarding the degree to which higher energy costs increase consumer prices. Furthermore, the contractionary impact of higher world oil prices on U.S. demand hurts Ontario exports.

Interest rates also influence the Ontario economy. Interest rates paid by Ontario borrowers are tied to rates that markets set for Government of Canada bonds, which are highly liquid. Canadian debt trades in integrated world markets and will be influenced by global financial conditions as well as by how investors perceive the risks and opportunities in particular countries.

The following table shows the average private-sector forecast of some of these key external variables.

**Key External Factors That Affect the Ontario Economy**

**Average Private-Sector Forecast**

| | Actual | | Forecast | |
|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** |
| Canadian Dollar (Cents US) | 71.4 | 76.8 | 82.0 | 82.4 |
| Crude Oil ($ US per Barrel) | 31.1 | 41.4 | 49.1 | 44.5 |
| U.S. Real GDP Growth (Per Cent) | 3.0 | 4.4 | 3.4 | 3.3 |
| Short-Term Interest Rates (Per Cent) | 2.9 | 2.2 | 2.6 | 3.3 |

Sources: Bank of Canada, U.S. Bureau of Economic Analysis, Consensus Economics (April 2005), *Blue Chip Economic Indicators* (May 2005) and Ontario Ministry of Finance Survey of Forecasts (May 2005).

To the extent that the actual path of these external factors differs from the assumptions, economic growth will tend to be faster or slower. The table below shows the typical range of these impacts.

**Impact of Changes in Key Assumptions on Ontario Real GDP Growth***
**(Percentage Point Change)**

| | First Year | Second Year |
|---|---|---|
| Canadian Interest Rates Increase by One Percentage Point | -0.1 to -0.5 | -0.2 to -0.6 |
| U.S. Real GDP Growth Increases by One Percentage Point | +0.3 to +0.7 | +0.4 to +0.8 |
| Canadian Dollar Appreciates by Five Cents US | -0.2 to -0.9 | -0.7 to -1.4 |
| World Crude Oil Prices Increase by $10 US Per Barrel | -0.3 to -0.7 | -0.1 to -0.5 |

*Impacts based on changes being sustained.
Source: Ontario Ministry of Finance.

The revenue forecast in the 2005 Budget is based on the economic projections set out in this appendix. The following table shows the sensitivity of Ontario revenues to changes in projected economic growth. These are average estimates. Actual results could vary significantly depending on how the underlying economic components differ from the original forecast.

**Cumulative Impact of Changes in Economic Assumptions on Ontario Revenues**
**($ Millions)**

| | Full Year | | |
|---|---|---|---|
| | **2005-06** | **2006-07** | **2007-08** |
| Sustained One Percentage Point Higher Real GDP Growth | 615 | 1,290 | 2,030 |

Source: Ontario Ministry of Finance.

A sustained one percentage point decrease in real GDP growth would result in revenue declines in line with the increases estimated above.

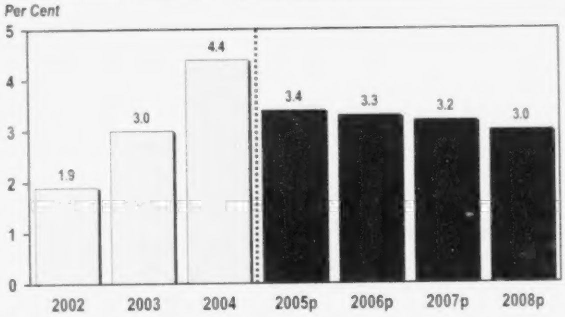
# A Growing U.S. Market

The U.S. economy grew by 4.4 per cent in real terms in 2004, the fastest annual gain since 1999. Economic growth was broadly based, with both the household and business sectors contributing to the rise, providing healthy markets for Ontario exports. Consumer spending was led by strong gains in furniture and household items, boosted by a robust housing market that recorded its strongest gain since 1992. Auto sales were 17.3 million units, a high level, but just matching the average pace of sales during the previous five years. In the business sector, solid demand helped corporation profits record a third straight double-digit gain, allowing firms to maintain healthy balance sheets and strong cash flow. As a result, firms boosted investment in machinery and equipment, with outlays rising 13.6 per cent in 2004.

Economists expect continued growth in the U.S. economy, although at a moderating pace. According to the *Blue Chip Economic Indicators* survey, the U.S. economy is expected to grow by 3.4 per cent in 2005, 3.3 per cent in 2006, 3.2 per cent in 2007 and 3.0 per cent in 2008.

Continued growth may be tested by a number of risks and imbalances. The strength of consumer spending has been the main driving force of the U.S. economy since 2001. However, high personal debt levels, rising interest rates and high oil prices are beginning to temper gains in personal consumption. In 2004, real personal spending rose at a slower rate than overall GDP for the first time since 1997.

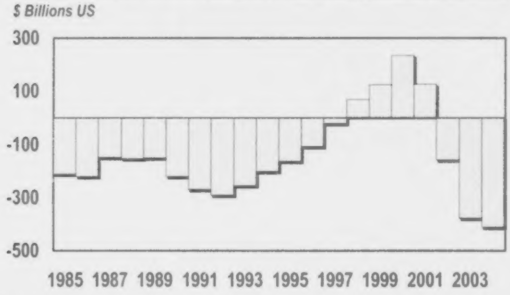
**U.S. Real GDP Growth**



p = private-sector survey average.
*Sources:* U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (May 2005).

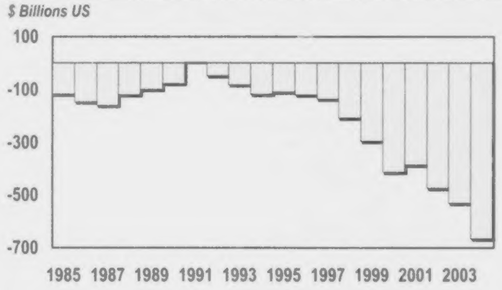
There are also growing concerns about the massive U.S. current account deficit, which reached a record $665.9 billion US in 2004, representing 5.7 per cent of GDP. The current account deficit was accompanied by a record $412 billion US federal fiscal deficit. Tax cuts and significant government spending growth have stimulated the very strong pace of consumer spending, boosting imports and raising the trade deficit. To maintain this rate of consumption, the U.S. economy must borrow from the rest of the world. If investor demand for U.S. assets were to weaken, interest rates could rise sharply, leading to a deterioration of consumer and business demand. Export-oriented Ontario, with close links to the U.S. economy, would be harmed by such a development.

**U.S. Fiscal Balance**



*Source:* U.S. Office of Management and Budget.

**U.S. Current Account Balance**



*Source:* U.S. Department of Commerce.

# Adjusting to a Stronger Canadian Dollar

The Canadian dollar appreciated from 64.9 cents US in January 2003 to a peak of over 85 cents US in November 2004, a 12-year high. Since then, the dollar has eased and traded at close to 80 cents US at the end of April 2005. Over the same period, the trade-weighted value of the U.S. dollar declined by nearly 11 per cent.

The rapid appreciation of the Canadian dollar over the past two years is unprecedented and has created a significant challenge for Ontario exporters. In a survey by the Bank of Canada released in January 2005, over half of the responding firms reported being hurt by the higher dollar, with businesses in the manufacturing and resource sectors being hardest hit. The appreciation has lowered profit margins for exporters, and in some cases has reduced export volumes.

In response to the higher dollar, businesses are cutting costs and working to raise productivity. Investment in productivity-enhancing machinery and equipment is made easier by the strong currency, because it lowers the price Ontario companies pay. About 60 per cent of Ontario machinery and equipment is imported, mainly from the United States. Firms have also contained production costs by expanding their use of inputs imported from low-cost producers.

The appreciation of the Canadian dollar has benefited Ontario consumers by lowering prices of imported goods and helping to offset some of the impact of higher prices for oil.

At present, there is a wide divergence among projections of the exchange rate. Private-sector forecasts for the average value of the Canadian dollar in 2005 range from a low of 79.3 cents US to a high of 85.0 cents US. This translates into a range of 78.3 to 88.9 cents US by the end of the year, a far wider range than usually found.

**Private-Sector Forecasts for the Canadian Dollar**
**(Cents US)**

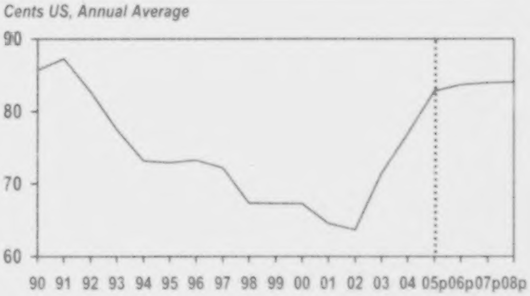
| | 2003 | 2004 | 2005p | 2006p | 2007p | 2008p |
|---|---|---|---|---|---|---|
| Average | 71.4 | 76.8 | 82.0 | 82.4 | 82.1 | 83.0 |
| High | – | – | 85.0 | 93.4 | 86.4 | 85.9 |
| Low | – | – | 79.3 | 76.2 | 79.6 | 81.2 |

p= private-sector survey average.

Sources: Bank of Canada and Ontario Ministry of Finance Survey of Forecasts (May 2005).

The planning projections in the Budget assume the Canadian dollar will average 82.8 cents US in 2005, and gradually appreciate to an average of 84 cents US by 2008. Canadian inflation is expected to remain somewhat below U.S. inflation over this period, so the real exchange rate is expected to remain fairly stable.

### Canadian Dollar



p = projection
Sources: Bank of Canada and Ontario Ministry of Finance.

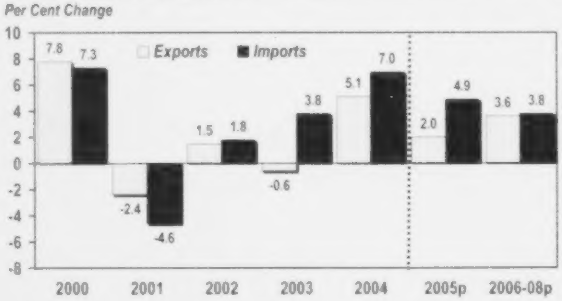
# Exports Under Pressure

Ontario's international exports were valued at $230.5 billion in 2004, equivalent to 44.5 per cent of current-dollar GDP. The United States accounted for over 90 per cent of Ontario's international merchandise exports in 2004. Despite the rapid appreciation of the Canadian dollar, Ontario real exports grew 5.1 per cent in 2004, after dropping in two of the previous three years. The pickup in export growth in 2004 reflected the strongest global economic growth in nearly three decades. This, combined with a high level of U.S. auto sales and a double-digit gain in machinery and equipment investment expenditures by U.S. businesses, helped boost Ontario's export volumes. The gain, however, was concentrated in the first half of 2004 and exports declined in the second half of the year.

Real exports are expected to grow by 2.0 per cent in 2005, followed by an annual average gain of 3.6 per cent a year during the 2006 to 2008 period.

The pace of export growth reflects continued, though moderating, growth in the world economy and the adjustment of exporters to the higher value of the Canadian dollar.

**Ontario Real International and Interprovincial Trade**



p = projection
Sources: Statistics Canada and Ontario Ministry of Finance

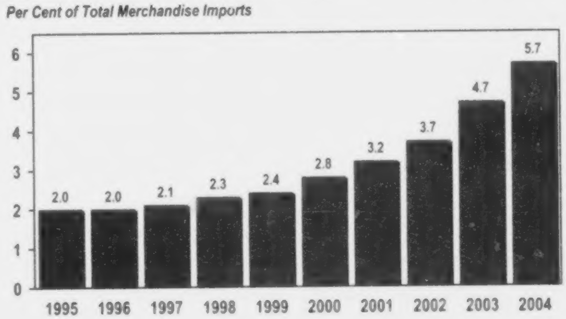
Private-sector forecasters expect U.S. auto sales to decline slightly in 2005 to a still-impressive 17.0 million units, down from 17.3 million in 2004. However, some models produced at Ontario auto-assembly plants are losing market share in the United States and may struggle to match sales levels achieved in 2004. The auto sector is crucial for the Ontario economy and accounted for 45.3 per cent of the province's merchandise exports to the United States in 2004.

Machinery and equipment sales accounted for 14.5 per cent of the province's merchandise exports to the United States in 2004. Forecasters expect U.S. real investment on equipment and software to increase by 12.4 per cent in 2005, the second straight double-digit annual gain. However, growth in the non-computer segment, which is more relevant for Ontario exporters, is expected to be a more moderate 7.0 per cent in 2005 and to decline by an average of 0.4 per cent a year from 2006 through 2008.

In recent years, China has surged ahead as a major exporting nation and become Ontario's second-largest two-way trading partner. Ontario merchandise imports from China grew more than fourfold from 1995 to 2004, with the share of total imports rising from 2.0 to 5.7 per cent.

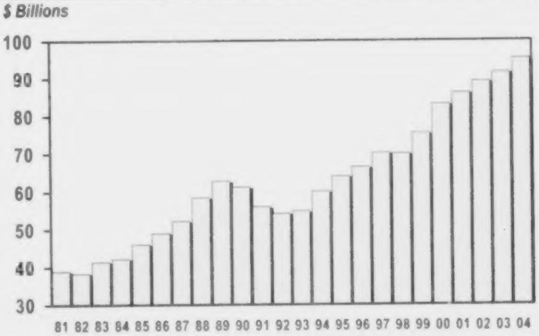
Canada's other provinces and territories are also important trading partners for Ontario. Interprovincial exports totalled $95.2 billion in 2004, while imports from other provinces reached $70.5 billion. Private-sector forecasters expect Canadian real GDP growth of 2.6 per cent in 2005, stronger than their projection for the Ontario economy. On balance, other parts of Canada benefit more than Ontario from high commodity prices because primary industries such as forestry, mining and agriculture make up a larger share of their economies. Healthy economies in the rest of Canada, in turn, support growth in the market for Ontario goods and services.

## China's Share of Ontario Merchandise Imports



*Source:* Statistics Canada

## Ontario Exports to Other Provinces



*Source:* Statistics Canada

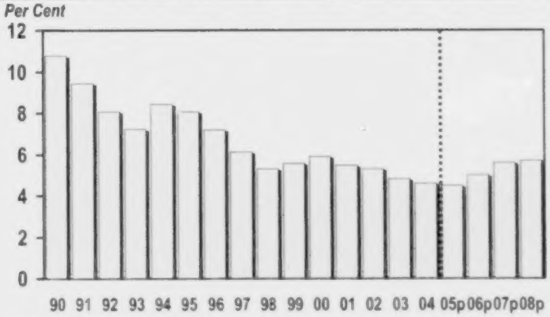
# Stable Interest Rates and Low Inflation

The Bank of Canada has held interest rates steady since October 2004, when the past appreciation of the Canadian dollar began to constrain growth and reduce any prospects of inflation. This is expected to continue until later in the second half of this year, when economic growth is projected to accelerate.

Private-sector forecasters expect Canadian three-month treasury bill rates to rise slightly, from an average of 2.2 per cent in 2004 to 2.6 per cent in 2005 and 3.3 per cent in 2006. Ten-year Government of Canada bond yields are projected to increase by a smaller amount, rising from an average of 4.5 per cent in 2005 to 5.0 per cent in 2006, consistent with ongoing economic growth and contained inflation.

Since June 2004, the U.S. Federal Reserve Board has raised interest rates eight times for a total of 200 basis points, bringing its key target for the federal funds rate to 3.0 per cent. As a result, Canadian short-term interest rates are below comparable U.S. rates for the first time in close to four years. The Federal Reserve is widely expected to continue lifting interest rates gradually, implying a widening negative Canada-U.S. rate gap for the rest of the year.

**10-Year Government of Canada Bond Rate**



p = private-sector survey average.
Sources: Bank of Canada and Ontario Ministry of Finance Survey of Forecasts (May 2005).

**Canadian Interest Rate Outlook (Annual Per Cent)**

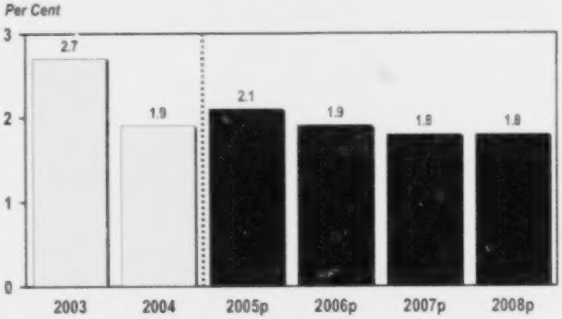
| | 2003 | 2004 | 2005p | 2006p | 2007p | 2008p |
|---|---|---|---|---|---|---|
| 3-month Treasury Bill Rate | 2.9 | 2.2 | 2.6 | 3.4 | 4.3 | 4.7 |
| 10-year Government Bond Rate | 4.8 | 4.6 | 4.6 | 5.2 | 5.7 | 6.0 |
| Ontario CPI Inflation Rate | 2.7 | 1.9 | 2.1 | 1.9 | 1.8 | 1.8 |

p= projection.
Sources: Bank of Canada, Statistics Canada and Ontario Ministry of Finance.

The Bank of Canada aims at core inflation of two per cent, the midpoint of its one to three per cent target range. The Bank's favoured measure of core inflation (the CPI excluding the eight most volatile items and the effect of changes in indirect taxes) has remained below two per cent throughout 2004 and into early 2005. This gives the Bank scope to keep interest rates low and support economic growth.

The Ontario CPI inflation rate is expected to average 2.1 per cent in 2005, similar to the 1.9 per cent rate recorded in the previous year. Over the 2006 to 2008 period, inflation is projected to average slightly less than two per cent a year.

**Ontario CPI Inflation Outlook**

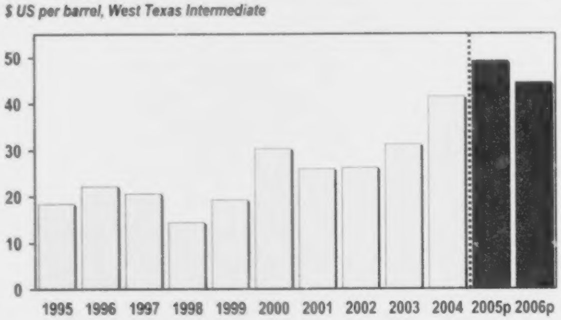


p = projection.
*Sources:* Statistics Canada and Ontario Ministry of Finance.

The limited movement of Ontario inflation within the Bank of Canada's target range likely will be shaped by two main factors: oil prices and the exchange rate.

In early April 2005, the price of crude oil reached an all-time high of over $58 US per barrel, a reflection of tight supply conditions and continued strong demand. Private-sector forecasters expect the average price to be 18.6 per cent higher in 2005 than in 2004. Forecasters generally expect slower global economic growth to trigger lower crude oil prices as 2005 unfolds, with crude projected to ease to $48.80 US per barrel by July 2005 and $44.70 US in a year's time. However, futures markets are less optimistic, expecting crude oil to trade above $50 US per barrel throughout 2005. For the purposes of this budget, oil prices are assumed to average $51.40 US per barrel in 2005. High oil and gas prices are the primary reason for the modest growth forecast in Ontario Gasoline Tax revenues (1.1 per cent) in 2005-06.

**Crude Oil Prices**



p = private-sector survey average.
*Source:* Consensus Economics (April 2005).

The Canadian dollar's appreciation of about 25 per cent since 2003 has lowered the cost of imported goods for consumers and businesses. About half of the durable goods consumed by Ontarians are imported.

Wage settlements averaged 3.0 per cent during 2004, similar to the experience of the past few years. Wage settlements are expected to moderate in 2005, helping to keep inflationary pressures in check.

### Risks From Financial Markets

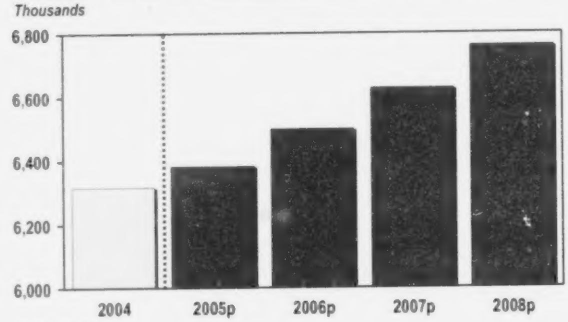
The assumption of financial market stability, sustained low inflation and stable interest rates is subject to significant and varied risks. One important area of concern is the potential for sharply higher inflation in the United States. Markets have become accustomed to moderate, well-contained inflation and this has helped maintain low nominal interest rates. U.S. demand continues to grow at a healthy pace and may be pushing the limits of productive capacity at the same time as the depreciating U.S. dollar is putting upward pressure on import prices. Despite these pressures, inflation has remained moderate. Should the balance of forces resulting in low inflation be disrupted by rising commodity prices, abrupt U.S. dollar depreciation or slower productivity growth, there is a danger of interest rates rising faster and higher than expected. Under such circumstances, the Bank of Canada could be under pressure to raise domestic interest rates. Higher rates could hinder Canada's economic growth, even as U.S. economic growth falters.

Risks such as these, arising from external forces, make it important to establish Ontario's fiscal plan on a prudent basis.

# Continued Job Growth

Ontario total employment rose 1.7 per cent in 2004, representing a net increase of 108,000 jobs. Full-time jobs, which rose by 111,500 new positions, accounted for all of the net gain in employment last year. On an industry basis, the service sector, including wholesale and retail trade, health care, and finance, insurance and real estate, led employment gains in 2004.

**Ontario Employment**

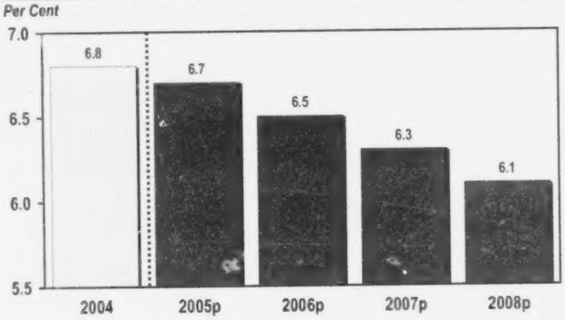


p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

As Ontario businesses adjust to the steep appreciation of the Canadian dollar and cost pressures from high oil prices, employment growth is forecast to slow to 1.0 per cent in 2005, a gain of 65,000 jobs. Employment gains are expected to firm up during the 2006 to 2008 period, averaging close to 2.0 per cent a year. Stable gains in employment are projected to steadily lower Ontario's unemployment rate to 6.1 per cent by 2008. Over the same period, the rate of labour-force participation is expected to climb modestly to 68.5 per cent.

Steady gains in employment will create rising incomes for Ontario workers. Wages and salaries are forecast to rise by 3.6 per cent in 2005 and an average of 5.3 per cent during 2006 to 2008. Personal income is expected to increase 3.8 per cent in 2005 and by an average of 4.9 per cent over the following three years, providing the basis for growing household spending on goods and services. Based on the outlook for rising employment, wages and incomes, Ontario's Personal Income Tax revenues are forecast to increase 4.9 per cent in 2005-06 and by an average of 6.7 per cent over the following three years. Likewise, Employer Health Tax revenues are forecast to increase 3.8 per cent in 2005-06 and by an average of 4.4 per cent over the following three years.

**Ontario Unemployment Rate**

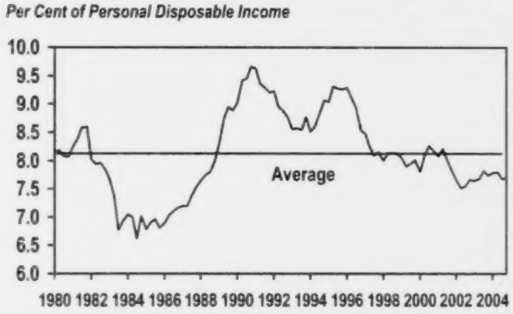


p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

# Household Sector to Post Modest Gains

Consumer spending is expected to continue growing over the forecast period, reflecting healthy household balance sheets, continuing low interest rates and rising incomes. Real consumer spending is projected to rise 2.6 per cent in 2005, easing from the 3.2 per cent rate posted in 2004. Over the 2006 to 2008 period, household spending growth is projected to average 3.1 per cent a year. Rising house values have boosted household wealth, contributing to the willingness and capacity of households to increase spending. Based on the outlook for increased personal spending, Ontario Retail Sales Tax revenues are forecast to increase 3.8 per cent in 2005-06 and by an average of 5.5 per cent over the following three years.

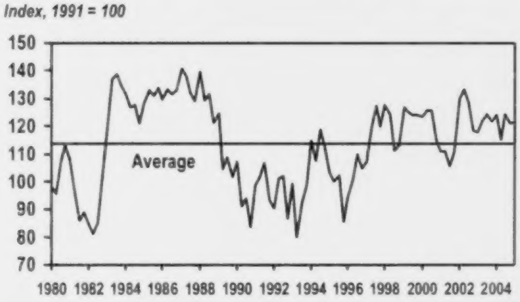
**Canadian Household Debt Interest Costs**



*Sources:* Department of Finance Canada and Statistics Canada.

The strong pace of Ontario housing market activity contributed to vigorous personal spending on household-related items in 2004. Home resales hit a record high last year, climbing 7.0 per cent. Sales of new homes also remained strong. Home furnishing stores registered sales growth of 19.0 per cent. Home centre and hardware store sales rose 7.9 per cent in 2004, the fourth consecutive annual increase.

**Ontario Consumer Confidence**



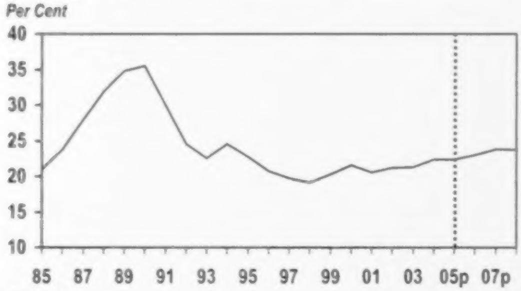
*Source:* Conference Board of Canada.

Although household debt levels have continued to rise, partly a result of robust home buying in recent years, the cost of carrying debt is low by historical standards. Low interest rates and steadily rising personal disposable incomes have contributed to the healthy position of household finances. The ratio of Canadian household debt costs to personal disposable income was 7.7 per cent in the fourth quarter of 2004, below the average of 8.1 per cent over the 1980 to 2004 period. The ratio has remained relatively stable over the past three years, ranging between 7.5 and 7.8 per cent. The level of consumer confidence in 2004, as measured by the Conference Board of Canada, was the third highest in the past 16 years. The consumer confidence index is currently 7.5 percentage points above the average prevailing since 1980.

The housing market is expected to be fairly stable in 2005. During the past nine years, Ontario housing starts have trended higher. In 2003 and 2004, housing starts averaged just over 85,000 units annually, the strongest two-year pace of building activity since 1988 and 1989. Unlike the housing boom of the late 1980s, the current market is not characterized by speculative and unsustainable increases in home prices.

Over the 2005 to 2008 period, starts are projected to moderate. Housing starts are forecast to reach 75,400 units in 2005 and an average of 74,800 units per year over the 2006 to 2008 period. The continued strength of the housing market reflects historically low mortgage rates and rising disposable incomes, which help keep home ownership affordable. This, combined with continued strong levels of immigration, will encourage high levels of housing demand and construction.

## Mortgage Payments as a Share of After-Tax Household Income



p = projection.
Sources: Bank of Canada, Canada Real Estate Association, Statistics Canada and Ontario Ministry of Finance.

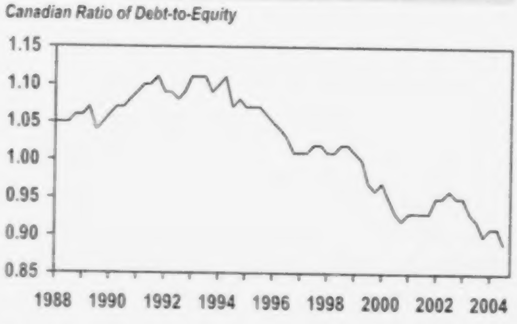
Average five-year mortgage rates have remained steady near six per cent since mid-December, down from a peak of 6.7 per cent in July 2004. Borrowers can usually negotiate mortgage rates lower than those published by financial institutions.

Sales of existing homes rose 7.0 per cent to reach a record level of 197,354 in 2004, marking the fourth consecutive year of record home resales in Ontario. The average price of a resale home in Ontario climbed 8.1 per cent to $245,229 in 2004, the highest on record. Resale home prices have increased steadily since 1995 and have risen faster than the rate of CPI inflation over the past eight years. However, the housing market appears to be in the midst of a period of sustainable, non-speculative growth, unlike the experience of the late 1980s. From 1982 through 1989, average resale home prices jumped by nearly 160 per cent, more than three times the 49.3 per cent gain recorded during the most recent seven years.

Nonetheless, modestly higher interest rates in the second half of this year are expected to lead to a gradual easing of housing activity, keeping the market from overheating, yet without causing an abrupt deterioration in home affordability. The average private-sector forecast calls for the number of existing home sales to ease by 1.9 per cent in 2005 and 4.1 per cent in 2006, with average resale house prices rising by 4.4 per cent in 2005 and 3.8 per cent in 2006. Based on the housing market outlook, Ontario Land Transfer Tax revenues are forecast to remain at their 2004-05 level in 2005-06.

# Strong Business Investment

## Business Balance Sheets Are Strong



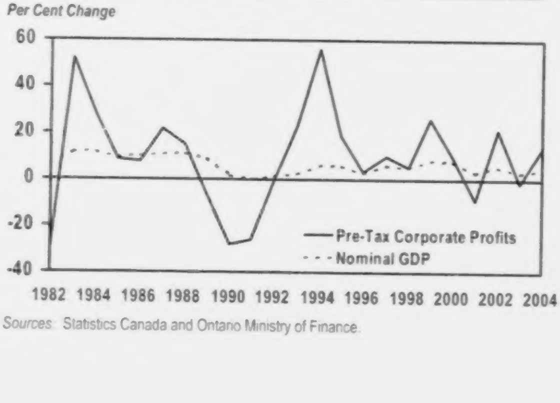
Source: Statistics Canada

Business investment spending on machinery and equipment has contributed to Ontario economic growth during the past two years, with outlays rising by 7.2 per cent in 2003 and 7.4 per cent in 2004, the largest gain since 1999. Commercial and industrial construction, on the other hand, declined in both 2003 and 2004. The strong pace of machinery investment has been the outcome of a supportive investment environment, including rising demand in the global economy, a high level of profits, improving corporate balance sheets, a high rate of capacity utilization, lower capital equipment prices and competitive pressures to adopt new technology.

Currently, Canadian manufacturing industries are operating at a record-high 88.5 per cent capacity utilization rate, with the industrial sector operating at 86.0 per cent, the highest rate in 16 years.

Strong growth in corporation profits was an important source of funds for business investment spending in 2004. Pre-tax corporation profits increased by 13.8 per cent last year, with both financial and non-financial firms recording gains. Corporate profits were equivalent to 12.9 per cent of GDP in 2004, the highest in 30 years. While relatively low interest rates and strong growth in the United States will support profits this year, the high dollar will act to dampen growth. Corporation profits are expected to grow by 3.0 per cent in 2005 and an average of 4.2 per cent from 2006 through 2008.

## Profits Subject to Far More Variation Than Total Ontario GDP



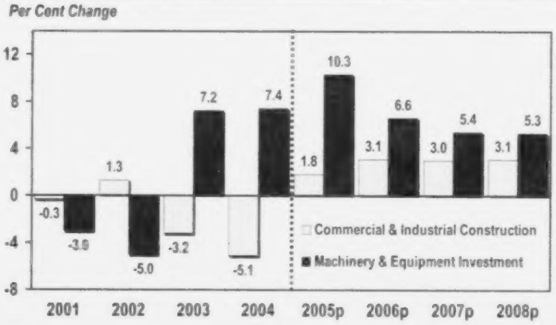
Sources: Statistics Canada and Ontario Ministry of Finance.

Profits are much more volatile than the economy as a whole. Since 1990, the annual change in profits has ranged from a decline of 28 per cent to a rise of 56 per cent. That range is 10 times more than the corresponding variability of nominal GDP growth. Profits are likely to be just as volatile in the future as in the past. The moderate, steady projection of profit growth, at a rate somewhat below that for nominal GDP, is intended to serve as a prudent planning assumption rather than a forecast that future profits will be stable. Given the volatility of corporate profit growth and the exceptionally high level of revenues attained in 2004-05, Ontario Corporation Tax revenues are cautiously forecast to decline 2.8 per cent in 2005-06 and increase by an average of 1.8 per cent over the following three years.

According to Statistics Canada's investment intentions survey published in February, Ontario businesses intend to increase nominal investment spending in 2005 by 8.6 per cent for equipment and 1.9 per cent for structures.

Real investment in machinery and equipment is forecast to rise by 10.3 per cent in 2005 and 5.8 per cent a year during the 2006 to 2008 period. Since Ontario firms import about 60 per cent of their capital equipment, mainly from the United States, the higher Canadian dollar has substantially lowered the cost of investing in machinery and equipment. This is encouraging business investment in productive capital and enhancing Ontario's long-term competitiveness.

### Real Business Investment



p = projection.
*Sources:* Statistics Canada and Ontario Ministry of Finance.

After declining in four of the past five years, non-residential investment outlays are expected to increase by 1.8 per cent in 2005, and then continue to rise by an average of 3.1 per cent from 2006 through 2008.

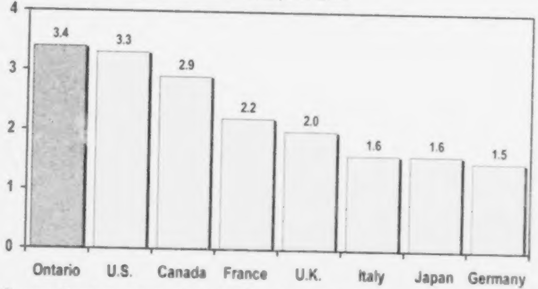
# Positive Long-Term Economic Prospects

Private-sector forecasters are optimistic about the future growth prospects of Ontario. The consensus forecast calls for real GDP growth to average 3.4 per cent a year during the 2006 through 2008 period, ahead of all G-7 countries.

The measures announced in this Budget will help enhance prosperity and strengthen the long-term potential for growth. Investing in the knowledge and skills of workers, renewing our infrastructure, promoting innovation and supporting an environment that encourages business investment and job creation form the policy framework that will achieve Ontario's economic potential.

**Ontario and G-7 Economic Growth**

*2006 to 2008 Average Real GDP Growth, Per Cent*



*Sources:* Consensus Forecasts (April 2005) and Ontario Ministry of Finance Survey of Forecasts (May 2005).

# Annex A: Details of the Ontario Economic Outlook

**The Ontario Economy, 2003 to 2008**
**(Per Cent Change)**

| | Actual | | Projected | | | |
|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| **Real Gross Domestic Product** | **1.6** | **2.6** | **2.0** | **2.8** | **3.4** | **3.3** |
| Personal consumption | 3.2 | 3.2 | 2.6 | 2.9 | 3.2 | 3.1 |
| Residential construction | 4.5 | 4.2 | 0.8 | 1.3 | 2.4 | 2.5 |
| Non-residential construction | -3.2 | -5.1 | 1.8 | 3.1 | 3.0 | 3.1 |
| Machinery and equipment | 7.2 | 7.4 | 10.3 | 6.6 | 5.4 | 5.3 |
| Exports | -0.6 | 5.1 | 2.0 | 3.4 | 3.7 | 3.9 |
| Imports | 3.8 | 7.0 | 4.9 | 3.8 | 3.7 | 4.0 |
| **Nominal Gross Domestic Product** | **3.1** | **4.7** | **3.9** | **4.6** | **5.3** | **5.3** |
| **Other Economic Indicators** | | | | | | |
| Retail sales | 3.4 | 3.2 | 4.0 | 3.9 | 4.0 | 4.4 |
| Housing starts (000s) | 85.2 | 85.1 | 75.4 | 74.3 | 74.5 | 75.5 |
| Personal income | 2.6 | 3.6 | 3.8 | 4.6 | 4.9 | 5.1 |
| Wages and salaries* | 3.1 | 3.7 | 3.6 | 5.0 | 5.4 | 5.4 |
| Corporate profits | -1.7 | 13.8 | 3.0 | 4.0 | 4.0 | 4.5 |
| Consumer Price Index | 2.7 | 1.9 | 2.1 | 1.9 | 1.8 | 1.8 |
| **Labour Market** | | | | | | |
| Employment | 2.9 | 1.7 | 1.0 | 1.8 | 2.0 | 2.0 |
| Job creation (000s) | 173 | 108 | 65 | 118 | 130 | 131 |
| Unemployment rate (per cent) | 7.0 | 6.8 | 6.7 | 6.5 | 6.3 | 6.1 |

*Includes supplementary labour income.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

# Annex B: Comparison to the 2004 Budget

Ontario's actual growth in 2004 slightly exceeded last year's Budget projection of 2.3 per cent, and the composition was somewhat different than expected. Retail sales grew by only 3.2 per cent last year compared to the 2004 Budget projection of 3.5 per cent. Housing starts were 85,114 units in 2004, ahead of the Budget assumption of 77,600. Both corporation profits and personal income were higher than anticipated in the May 2004 Budget.

The outlook for Ontario growth in 2005 and 2006, however, has deteriorated since the Budget of May 2004. As seen in the table below, Ontario real GDP is expected to grow by 2.0 per cent in 2005 and 2.8 per cent in 2006, down from last year's Budget assumption of 3.2 and 3.3 per cent, respectively. The growth of nominal GDP, corporation profits and retail sales is also lower than projected in last year's Budget.

The weakening in the province's near-term economic prospects mainly reflects the impacts of the sharp appreciation of the Canadian dollar and high oil prices. As the impact of these two forces fades, growth is expected to improve to 3.4 per cent in 2007 and 3.3 per cent in 2008.

**Changes in Key Economic Forecast Assumptions, 2004 Budget Compared to 2005 Budget (Per Cent Change)**

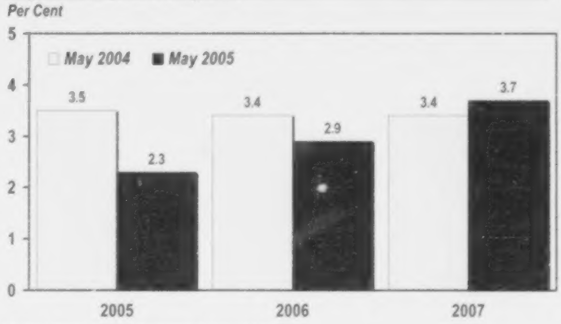
| | 2004 | | 2005 | | 2006 | | 2007 | |
|---|---|---|---|---|---|---|---|---|
| | Budget 2004 | Actual | Budget of 2004 | Budget of 2005 | Budget of 2004 | Budget of 2005 | Budget of 2004 | Budget of 2005 |
| Real GDP | 2.3 | 2.6 | 3.2 | 2.0 | 3.3 | 2.8 | 3.4 | 3.4 |
| Nominal GDP | 4.1 | 4.7 | 5.0 | 3.9 | 5.2 | 4.6 | 5.3 | 5.3 |
| Corporate Profits | 5.8 | 13.8 | 4.9 | 3.0 | 5.0 | 4.0 | 5.9 | 4.0 |
| Retail Sales | 3.5 | 3.2 | 4.1 | 4.0 | 4.1 | 3.9 | 4.3 | 4.0 |
| Housing Starts (000s) | 77.6 | 85.1 | 76.0 | 75.4 | 75.0 | 74.3 | 74.0 | 74.5 |
| Employment | 1.7 | 1.7 | 1.8 | 1.0 | 2.0 | 1.8 | 2.1 | 2.0 |
| Job Creation (000s) | 104 | 108 | 114 | 65 | 132 | 118 | 140 | 130 |
| Personal Income | 3.4 | 3.6 | 4.5 | 3.8 | 4.8 | 4.6 | 4.9 | 4.9 |

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

Private-sector forecasts for Ontario economic growth in 2005 and 2006 have also been reduced from the projections made at the time of the 2004 Budget. Forecasters now anticipate a stronger rebound will be underway in 2007.

### Average Private-Sector Forecast of Ontario Real GDP Growth

**May 2004 Compared to May 2005**



Source: Ontario Ministry of Finance Survey of Forecasts.

# PAPER C

## Details of Revenue Measures

# Paper C: Details of Revenue Measures

This paper provides further information on the revenue measures proposed in the Budget. For precise information, the reader is advised to consult the amending legislation.

## INCOME TAX ACT

### *Ontario Property and Sales Tax Credits for Seniors*

Last year, the government announced the first enrichment of the Ontario Property and Sales Tax Credits for Seniors since the inception of the program in 1992. Lower-income seniors who own or rent their homes are now eligible for additional assistance as a result of an increase to the underlying "basic" property tax credit amount of $125 and an equivalent increase to the maximum benefit available for these credits.

For the first time, as a result of increased amounts for the federal Old Age Security and Guaranteed Income Supplement programs, the minimum level of income guaranteed by the government, including Ontario's Guaranteed Annual Income System (GAINS), for qualifying Ontario senior couples is rising above $22,000 for 2005. This is the income threshold above which Ontario Property and Sales Tax Credits for Seniors are reduced.

The government proposes to increase the income threshold for senior couples in 2005 to ensure that those couples receiving the guaranteed minimum level of income support retain their full Ontario Property and Sales Tax Credits benefit. The income threshold for single seniors will remain unchanged because their guaranteed minimum level of income support remains below the $22,000 threshold in 2005.

### *Concordance with the Income Tax Act (Canada)*

The government proposes to parallel, with any necessary modifications, a number of tax measures as they apply to non-refundable tax credits announced in the 2005 federal budget and other federal releases, subject to the passage of federal legislation:

- enhancements relating to amounts that can be claimed for dependants through the Medical Expense Tax Credit, effective for the 2005 taxation year; and
- a non-refundable tax credit for eligible adoption expenses, effective for the 2005 taxation year.

Other proposals announced by the federal government would be automatically adopted once federal legislative and regulatory changes have been approved. These include:

- changes allowing specific charitable donations, made before January 12, 2005 in relation to the Asian tsunami disaster, to be claimed by Ontario taxpayers either in 2004 or 2005; and

- various enhancements to the Disability Tax Credit and Medical Expense Tax Credit, effective for the 2005 taxation year.

## CORPORATIONS TAX ACT

### *Ontario Film and Television Tax Credit and Ontario Production Services Tax Credit*

The Ontario Film and Television Tax Credit (OFTTC) is a refundable tax credit for Ontario labour expenditures incurred by Ontario-based, Canadian-controlled production companies producing eligible film and television productions in Ontario.

As announced on December 21, 2004, the government proposes that the OFTTC rate be increased from 20 to 30 per cent for labour expenditures incurred after December 31, 2004 and before January 1, 2010. In addition, the 10 per cent regional bonus would continue to be available for filming outside the Greater Toronto Area. First-time producers would be eligible for an enhanced rate of 40 per cent on the first $240,000 of qualifying labour expenditures incurred after December 31, 2004 and before January 1, 2010.

The Ontario Production Services Tax Credit (OPSTC) is a refundable tax credit for Ontario labour expenditures incurred by foreign-based and domestic film and television productions that are not claimed for purposes of the OFTTC.

As announced on December 21, 2004, the government proposes that the OPSTC rate be increased from 11 to 18 per cent for labour expenditures incurred after December 31, 2004 and before April 1, 2006. The three per cent regional bonus for filming outside the Greater Toronto Area would be eliminated for labour expenditures incurred after December 31, 2004.

Legislative amendments will be introduced to create regulatory authority to prescribe OFTTC and OPSTC rates.

### *Ontario Computer Animation and Special Effects Tax Credit*

The Ontario Computer Animation and Special Effects (OCASE) Tax Credit is a 20 per cent refundable tax credit available to corporations for Ontario labour expenditures incurred in respect of digital animation and digital visual effects carried out in Ontario for use in film and television productions.

At present, the OCASE tax credit is based on the lesser of Ontario labour expenditures and 48 per cent of the cost of the production net of certain government assistance.

The government proposes to enhance the OCASE tax credit. Effective for eligible expenditures after May 11, 2005, the OCASE tax credit would be based only on Ontario labour expenditures net of certain government assistance reasonably related to those expenditures.

### *Ontario Interactive Digital Media Tax Credit*

The Ontario Interactive Digital Media Tax Credit (OIDMTC) is a 20 per cent refundable tax credit available to eligible corporations for qualifying expenditures incurred to create and market original interactive digital media products in Ontario.

This Budget proposes to improve accessibility to the OIDMTC. Effective for eligible products completed after May 11, 2005, the requirement that eligible corporations demonstrate a minimum 90 per cent copyright ownership in the eligible product would be relaxed, provided that the product is not developed under a fee-for-service arrangement.

### *Ontario Sound Recording Tax Credit*

The Ontario Sound Recording Tax Credit (OSRTC) is a 20 per cent refundable tax credit available to eligible Ontario sound recording companies for qualifying expenditures in respect of an eligible Canadian sound recording by an emerging Canadian artist or group.

This Budget proposes that the OSRTC be enhanced by the following measures for taxation years ending after May 11, 2005:

- the minimum period required by the corporation to carry on a sound recording business would be reduced from 24 to 12 months; and
- for master tapes completed after May 11, 2005:
  - the minimum total playing time would be reduced from 40 to 15 minutes; and
  - the requirement that a sound recording company market its copies of eligible sound recordings through an established national distributor would be replaced with a requirement that a sound recording company have a distribution plan approved by the Minister of Culture.

### *Ontario Book Publishing Tax Credit*

The Ontario Book Publishing Tax Credit (OBPTC) is a 30 per cent refundable tax credit available to eligible Ontario book publishing companies for qualifying expenditures on literary works by new Canadian authors.

This Budget proposes to enhance the OBPTC for children's books. Currently, an author is eligible for the first three children's books published. The proposed enhancement would allow a children's book author to be an eligible author for the first three works published in each category of children's writing:

- fiction;
- non-fiction;

- poetry; and
- biography.

This change would be effective for literary works published after May 11, 2005.

## Capital Cost Allowance

Ontario proposes to parallel recently announced federal regulatory changes to align the capital cost allowance (CCA) rates with the useful life of assets and to encourage investment in assets used to generate efficient and renewable energy, subject to federal implementation.

Assets acquired before January 1, 2008 that are used to generate electricity from clean, alternative or renewable sources will continue to be eligible for Ontario's 100 per cent CCA rate.

## Tax Avoidance

The government is in the course of reviewing arrangements that are designed to avoid corporate income taxes paid to Ontario.

For example, arrangements can be designed to take advantage of differences in provincial corporate income tax rates. In the international context, there are comprehensive federal income tax measures that address arrangements driven by differences in national income tax rates. However, limited measures exist at the provincial level.

Differences in provincial income tax rates create an incentive for Canadian corporations in a related group to situate intangible property (such as indebtedness and intellectual property) in provinces with lower tax rates, and for these corporations to carry out internal transactions (e.g., transfers of goods and services within the group) on terms that reduce the overall level of provincial tax in the corporate group. In certain cases, arrangements can have the effect of "exporting" tax losses from a low-tax province to a higher-tax province.

These and other types of arrangements can also reduce income taxes paid in other provinces. The Ontario Government will be discussing this issue with the other provinces and the federal government, with the objective of developing common rules to address aggressive interprovincial tax-planning arrangements.

### ***Treatment of Corporations Incorporated Outside Canada***

A corporation's liability for Ontario tax is based in part on whether the corporation is incorporated inside or outside Canada. The federal government and the other provinces apply a residency test instead of basing liability for tax on the jurisdiction of incorporation.

To stop the avoidance of provincial tax that can result from this difference, it is proposed that Ontario corporate tax liability now be determined with reference to whether the corporation is resident (rather than incorporated) inside or outside Canada. This change to the Ontario corporate tax rules would be consistent with the federal corporate income tax rules and the rules in the other provinces.

This measure would be effective for taxation years ending after May 11, 2005.

## RETAIL SALES TAX ACT

### *Retail Sales Tax Exemption for Destination Marketing Fees*

It is proposed that the temporary retail sales tax exemption for destination marketing fees be extended. Destination marketing fees billed on or before June 30, 2006 would qualify for exemption from the five per cent retail sales tax on accommodations.

Eligibility rules would remain unchanged.

This measure continues support for an industry-sponsored tourism initiative.

### *Updating the Retail Sales Tax Exemptions for Publications Purchased by Charitable Organizations and Educational Institutions*

It is proposed that the retail sales tax exemption for publications produced or purchased by religious, charitable or benevolent organizations be updated to include CD-ROMs and DVDs used to promote the objects of the organization.

It is also proposed that the exemption for publications purchased by schools, school boards, community colleges, universities and public libraries be updated to include educational DVDs.

These changes would be effective for purchases after May 11, 2005.

### *Retail Sales Tax Exemption for Booster Seats*

The Ontario Government's Bill 73, *An Act to Enhance the Safety of Children and Youth on Ontario's Roads*, was passed into law in December 2004.

Regulations under the new law would make booster seats mandatory for children who are too big for child car seats, yet too small to be properly protected by seat-belts.

An amendment to the *Retail Sales Tax Act* will be proposed to expand the current retail sales tax exemption for child car seats to include booster seats. This amendment would be effective upon proclamation, to coincide with the implementation of the booster-seat requirement.

## INITIATIVES TO ENCOURAGE THE REDEVELOPMENT OF BROWNFIELDS

Crown liens have been identified by the National Round Table on the Environment and the Economy, municipalities, and others, as one of the barriers to the remediation of brownfields.

In the coming year, the Ministry of Finance will develop criteria for the removal of outstanding Provincial tax liens on brownfields properties. The Ministry will also work closely with the federal government to co-ordinate the removal of outstanding federal liens. In addition, the Ministry of Finance will undertake proposed amendments to the *Municipal Act, 2001*, to clarify program requirements for the Brownfields Financial Tax Incentive Program.

## TAX INCREMENT FINANCING

A number of municipalities have requested that the Province explore the feasibility of introducing Tax Increment Financing (TIF) as a new financial tool. In response, in 2005-06, the government will examine options to implement TIF as a tool to promote urban regeneration. In the summer and fall of 2005, Ministry of Finance staff will consult with interested municipalities and others on the policy framework and potential legislation for this initiative.

## TECHNICAL MEASURES

### Resource Allowance

The resource allowance is a special deduction under the *Corporations Tax Act* provided to corporations in the oil and gas and mining sectors. It is generally equal to 25 per cent of resource profits, and is provided instead of allowing deductibility of Crown royalties.

The 2004 Ontario Budget announced that the Province would maintain the Ontario resource allowance and the rules restricting the deduction of Crown royalties, although these provisions are being phased out by the federal government. The legislation implementing the Ontario announcement has been passed, and the required Ontario regulations are being finalized.

It is proposed that the Ontario provisions be amended to clarify that income computed for Ontario purposes must be used in determining Ontario resource profits. This amendment, which would be effective for taxation years beginning after May 6, 1997, would prevent corporations from obtaining a double benefit as a result of claiming both an Ontario incentive deduction and additional resource allowance on that incentive.

### Streamlining of Current Remissions Process

Tax remissions under the *Ministry of Revenue Act* may be granted in special circumstances of public interest, and must be considered by cabinet, upon the recommendation of the Minister of Finance. It is proposed that an amendment be made to the *Ministry of Revenue Act* to streamline and increase the efficiency of the approval process for Ontario taxpayers. The amendment would provide the Minister of Finance with the authority to remit amounts under $10,000, where such remissions would be in the public interest. This treatment would be consistent with that offered in several other provinces.

It is also proposed that the Minister of Finance invoke a provision under the Ontario *Income Tax Act* that, if mutually agreed upon, would delegate to the Minister of National Revenue the ability to grant remissions of Ontario personal income tax in certain circumstances. This too would streamline the approval process for Ontario taxpayers.

### *Retail Sales Tax Simplified Calculation for Small Software Businesses*

Retail sales tax applies to non-custom computer software and certain software services. When providing software services to customers, businesses must charge the applicable tax on the taxable components. Contracts may often include a blend of both taxable and non-taxable services, requiring businesses to determine the tax liability of the components of the service contract.

To simplify the tax determination and collection for small software businesses, the Ministry of Finance will be proposing a pilot project consisting of an optional method of tax calculation for contracts involving both taxable and non-taxable services. Participating businesses and purchasers could opt to use a blended tax rate applied to the total contract price. This would benefit small software businesses by simplifying the tax determination and collection process.

### *Use of Appraisals for Multijurisdictional Vehicle Tax*

Under the *Retail Sales Tax Act*, it is proposed that multijurisdictional vehicle owners be permitted to use appraisals to establish vehicle value when transferring their vehicles from multijurisdictional use to Ontario use. This would only apply to vehicles purchased after September 30, 2001, owned by the same person for more than 60 months, and where the pro-rated multijurisdictional vehicle tax was paid in lieu of the point-of-sale retail sales tax.

## PROFESSIONAL CORPORATIONS

In 2001, the right to incorporate was extended to all regulated professionals. Under existing provisions, non-members of a profession cannot own shares in a professional corporation. Recent negotiations with the Ontario Medical Association have resulted in the government's commitment to extend the share structure of physician professional corporations to include non-voting shares for family members. The government is also proposing to implement this change for dentists who operate their practices through a professional corporation.

# Technical Amendments

In order to improve the administrative effectiveness and enforcement, and maintain the integrity and equity of Ontario's tax system, as well as enhance legislative clarity and regulatory flexibility to preserve policy intent, certain amendments will be proposed to the following statutes:

- *Assessment Act*
- *Business Corporations Act*
- *Community Small Business Investment Funds Act*
- *Corporations Tax Act*
- *Electricity Act, 1998*
- *Employer Health Tax Act*
- *Fuel Tax Act*
- *Gasoline Tax Act*
- *Highway Traffic Act*
- *Income Tax Act*
- *Land Transfer Tax Act*
- *Ministry of Revenue Act*
- *Regulated Health Professions Act, 1991*
- *Retail Sales Tax Act*
- *Tobacco Tax Act*

## FINANCIAL ADMINISTRATION ACT

The government intends to introduce amendments to the *Financial Administration Act* that, if passed, would allow for the implementation by the government of Special Operating Agencies, revolving accounts and expanded use of recoveries. These amendments are designed to improve accountability and financial management of qualifying government programs and have been implemented successfully in other Canadian jurisdictions.

| **2005 Budget Impact Summary*** | | | | **($ Millions)** |
|---|---|---|---|---|
| | **2005-06** | **2006-07** | **2007-08** | **2008-09** |
| **Income Tax Act** | | | | |
| Ontario Property and Sales Tax Credits for Seniors[1] | (2) | (2) | (2) | (2) |
| Concordance with the *Income Tax Act (Canada)* | (24) | (24) | (25) | (25) |
| **Corporations Tax Act** | | | | |
| Ontario Film and Television Tax Credit | (31) | (39) | (48) | (57) |
| Ontario Production Services Tax Credit | (17) | 0 | 0 | 0 |
| Ontario Computer Animation and Special Effects Tax Credit | (1) | (1) | (1) | (1) |
| Ontario Interactive Digital Media Tax Credit | (1) | (1) | (2) | (2) |
| Ontario Sound Recording Tax Credit | (1) | (1) | (2) | (2) |
| Ontario Book Publishing Tax Credit[2] | – | – | – | – |
| Capital Cost Allowance | (4) | (8) | (14) | (37) |
| Closing Loophole: Ensuring Corporations Incorporated Outside Canada Pay Provincial Tax[3] | 5 | 5 | 5 | 5 |
| **Retail Sales Tax Act** | | | | |
| Exemption for Destination Marketing Fees | (2) | (1) | 0 | 0 |
| Updating Exemptions for Publications Purchased by Charitable Organizations and Educational Institutions | (1) | (1) | (1) | (1) |
| Exemption for Booster Seats[4] | (1) | – | – | – |
| **Technical Measures[5]** | – | – | – | – |
| **Professional Corporations** | (10) | (40) | (40) | (40) |
| **Total Revenue Changes** | **(88)** | **(113)** | **(129)** | **(162)** |

* Numbers may not add due to rounding.

Notes:

[1] Estimate based on anticipated adjustment to the income threshold for senior couples.

[2] Ongoing cost estimated to be $100,000 per year.

[3] This figure does not include revenue that may be received in 2005-06 in respect of additional income allocated to Ontario as a result of the difference between Ontario rules, and federal corporate income tax rules and the rules in other provinces.

[4] 2006-07 and ongoing cost estimated to be $400,000 per year.

[5] $0 in 2005-06. Less than $1 million in subsequent years.

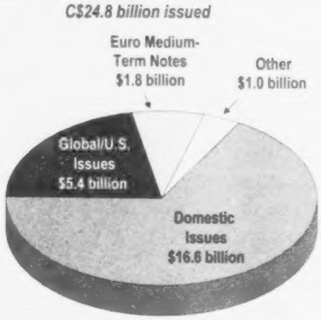
# PAPER D

Report on Borrowing and Debt Management

# Long-Term Public Borrowing

As an agency of the Ministry of Finance, the primary goal of the Ontario Financing Authority (OFA) is to manage the borrowing, debt and cash management activities of the Province and the Ontario Electricity Financial Corporation (OEFC) in a professional and cost-effective manner.

### Borrowing—All Markets



*Source:* Ontario Financing Authority (March 31, 2005).

In 2004-05, the OFA borrowed $24.8 billion on behalf of the Province and the OEFC. The $24.8 billion included $5.9 billion in pre-funding for the 2005-06 Long-Term Public Borrowing Requirement, as the OFA decided to take advantage of favourable market conditions to lock in the lowest long-term interest rates since the early 1960s. Without the pre-funding, the 2004-05 Long-Term Public Borrowing Requirement would have been $4.9 billion lower than the $23.8 billion forecast in the 2004 Budget Plan.

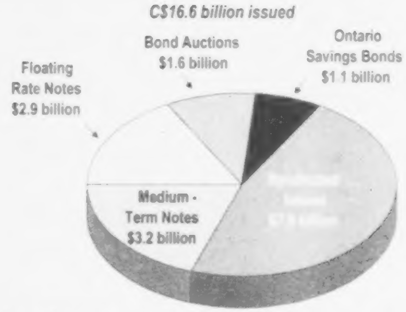
While the majority of borrowing was completed in the domestic market, Ontario further diversified its funding sources by raising the equivalent of $7.2 billion in the international capital markets, achieving costs comparable to those available in the Canadian domestic markets. Highlights include:

- Four U.S. dollar Global bonds.
- Euro Medium-Term Notes (EMTNs) in Canadian and Australian dollars, Swiss francs as well as Ontario's first sterling-denominated issue since 1998.

In 2004-05, $16.6 billion, or 67 per cent, of the Total Long-Term Public Borrowing Requirement was completed in the Canadian dollar domestic market.

The Province used a variety of cost-effective financial instruments to diversify its domestic borrowing program and meet investor preferences.

### Borrowing—Domestic Market



*Source:* Ontario Financing Authority (March 31, 2005)

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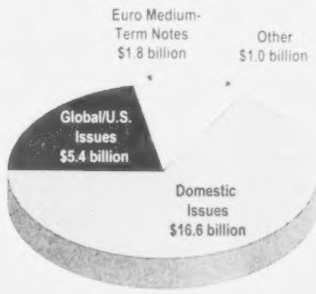
## Borrowing—All Markets

*C$24.8 billion issued*



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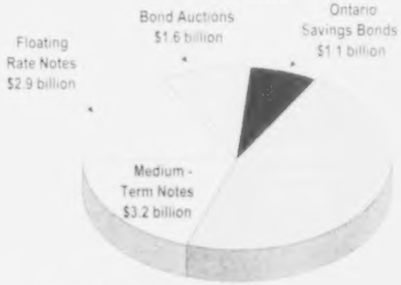


*Source: Ontario Financing Authority (March 31, 2005)*

**2004-05 Borrowing Program: Province and OEFC**

| ($ Billions) | Budget Plan* | Interim | In-Year Change |
|---|---|---|---|
| Deficit/(Surplus) | 6.1 | 3.0 | (3.1) |
| Adjustments for: | | | |
| Non-Cash Items Included in Deficit | (0.7) | (2.0) | (1.3) |
| Amortization of Major Tangible Capital Assets | (0.8) | (0.8) | - |
| Acquisitions of Major Tangible Capital Assets | 1.6 | 1.5 | (0.1) |
| Debt Maturities | 16.1 | 15.3 | (0.8) |
| Debt Redemptions | 1.0 | 1.4 | 0.4 |
| Canada Pension Plan Borrowing | (1.1) | (1.0) | 0.1 |
| Increase/(Decrease) in Cash and Cash Equivalents | - | 5.9 | 5.9 |
| Decrease/(Increase) in Short-Term Borrowing | 0.2 | 0.2 | - |
| Other Uses/(Sources) of Cash | 1.4 | 1.4 | - |
| **Total Long-Term Public Borrowing Requirement** | **23.8** | **24.8** | **1.0** |

Note: Numbers may not add due to rounding.

*Deficit and Adjustments for Non-Cash Items Included in Deficit as per 2004-05 Budget Plan excluding the one-time revenue gain related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

The Increase/(Decrease) in Cash and Cash Equivalents in 2004-05 represents $5.9 billion of pre-funding for the 2005-06 Total Long-Term Public Borrowing Requirement.

Details of the in-year improvement of $3.1 billion from the $6.1 billion deficit projected in the 2004 Budget are included in Appendix 1 to Paper A, *Details on Ontario Finances*.

The $1.3 billion decline in Adjustments for Non-Cash Items Included in Deficit is primarily attributable to the impact of the federal government transfer for Health Care Wait Times Reduction ($1.4 billion).

The $0.8 billion decline in Debt Maturities is primarily attributable to debt that had callable or extendible features that were exercised or not exercised by either the investor or the Province, resulting in the extension of the corresponding debt maturities to future years. As part of prudent budget forecasting, it was assumed that this debt would mature in fiscal 2004-05.

| **Medium-Term Borrowing Program Outlook: Province and OEFC**<br>**($ Billions)** | **2005-06** | **2006-07** | **2007-08** | **2008-09** |
|---|---|---|---|---|
| Deficit/(Surplus) | 2.8 | 2.4 | 1.5 | - |
| Adjustments for: | | | | |
| Non-Cash Items Included in Deficit | 2.3 | 1.2 | 1.7 | 1.4 |
| Amortization of Major Tangible Capital Assets | (0.8) | (0.9) | (1.0) | (1.0) |
| Acquisitions of Major Tangible Capital Assets | 1.8 | 2.2 | 2.4 | 2.2 |
| Debt Maturities | | | | |
| Currently Outstanding | 20.5 | 14.5 | 12.6 | 19.1 |
| Incremental Impact of Future Refinancing | - | - | 1.9 | 2.5 |
| Subtotal | 20.5 | 14.5 | 14.4 | 21.7 |
| Debt Redemptions | 0.7 | 0.7 | 0.7 | 0.7 |
| Canada Pension Plan Borrowing | (1.2) | (0.4) | (0.4) | (0.6) |
| Decrease/(Increase) in Short-Term Borrowing | - | - | - | - |
| Other Uses/(Sources) of Cash | 1.1 | 0.1 | 0.2 | 0.5 |
| **Total Long-Term Public Borrowing Requirement** | **27.2** | **19.9** | **19.5** | **24.8** |

Note: Numbers may not add due to rounding.

| **2005-06 Borrowing Program Status***<br>**($ Billions)** | **Completed** | **Remaining** | **Total** |
|---|---|---|---|
| Province | 6.5 | 18.2 | 24.7 |
| OEFC | - | 2.5 | 2.5 |
| **Total** | **6.5** | **20.7** | **27.2** |

*As of April 30, 2005.

As of April 30, 2005, $6.5 billion, or 24 per cent, of the 2005-06 Total Long-Term Public Borrowing Requirement had been completed. This consists of $5.9 billion in pre-funding undertaken during 2004-05 and $0.6 billion of long-term debt issued in 2005-06.

The Canadian domestic market will remain the main funding source for the Province in 2005-06. Ontario will diversify its domestic borrowing program by issuing a variety of debt instruments including syndicated issues, bond auctions, floating rate notes, medium-term notes and Ontario Savings Bonds. The OFA is also reviewing the merits of issuing a Real Return Bond linked to the Canadian Consumer Price Index.

International markets will remain a significant component of Ontario's borrowing program. While the U.S. dollar market is expected to be the most important international market for the Province, Ontario will also consider opportunities to expand its presence in the euro market and increase issuance in Swiss francs, sterling and yen.

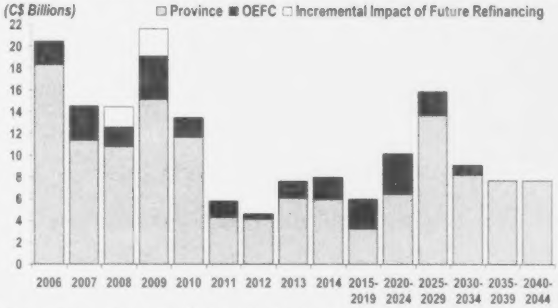
In addition, the OFA is completing documentation to permit the Province to issue debt in the Australian dollar domestic market. New currency markets may present cost-effective borrowing opportunities for Ontario. These include the Mexican peso and Turkish lira markets. Foreign exchange exposure to these currencies will be converted into Canadian dollars.

The government will seek the approval of the legislature for additional borrowing authority to meet program requirements.

# Debt Maturities

The most significant component of the borrowing program is the refinancing of Debt Maturities.

The Incremental Impact of Future Refinancing represents the effect of future borrowing on the debt maturity profile, as indicated in the Medium-Term Borrowing Program Outlook.


Debt Maturities

Excludes Province of Ontario and OEFC short-term debt and other liabilities.
Assumes issues with options will be retired at the earliest possible date.
*Source:* Ontario Financing Authority (March 31, 2005).

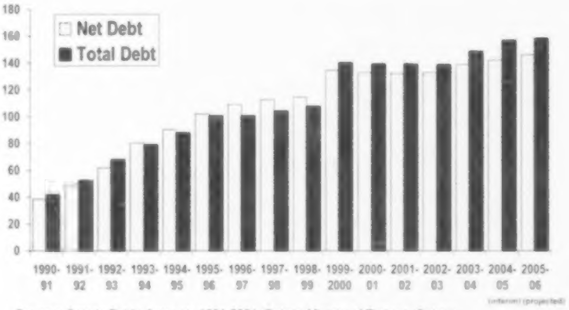
# Debt

Ontario's Total Debt has increased since the early 1990s from $41.9 billion as of March 31, 1991 to an interim $156.6 billion as of March 31, 2005. The increase in Total Debt in the year ended March 31, 2000 reflects the consolidation of OEFC's $19.4 billion in stranded debt from the electricity sector to the Province's debt.

Net Debt represents the difference between the total liabilities and total financial assets of the Province. Interim Net Debt was $142.2 billion as of March 31, 2005. Net Debt is projected at $146.0 billion as of March 31, 2006.

**Debt**

*($ Billions)*



*Sources:* Ontario Public Accounts 1991-2004, Ontario Ministry of Finance, Ontario Financing Authority (March 31, 2005)

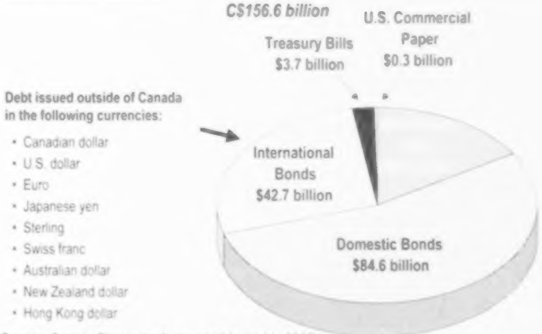
The Ontario Strategic Infrastructure Financing Authority's (OSIFA) interim 2004-05 debt of $1.3 billion is included in the Province's Total Debt, but not in the Province's Net Debt, as OSIFA's debt is offset by net assets of $1.3 billion. OSIFA's debt is not guaranteed by the Province. This debt is composed of Ontario Opportunity Bonds ($323 million), Infrastructure Renewal Bonds ($650 million) and short-term commercial paper ($315 million). Additional details on OSIFA are provided in Paper B, *Achieving Our Potential: Progress Towards a New Generation of Economic Growth.*

## TOTAL DEBT COMPOSITION

Total Debt of $156.6 billion is composed of bonds and debentures issued in both the short- and long-term public capital markets and non-public debentures held by certain federal and provincial public-sector pension plans and government agencies.

As of March 31, 2005, public debt totalled $131.3 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in nine currencies. Ontario also had $25.4 billion outstanding in non-public debt issued in Canadian dollars.

**Total Debt Composition**



**Debt issued outside of Canada in the following currencies:**

- Canadian dollar
- U.S. dollar
- Euro
- Japanese yen
- Sterling
- Swiss franc
- Australian dollar
- New Zealand dollar
- Hong Kong dollar

*Source:* Ontario Financing Authority (March 31, 2005)
Note: Numbers may not add due to rounding

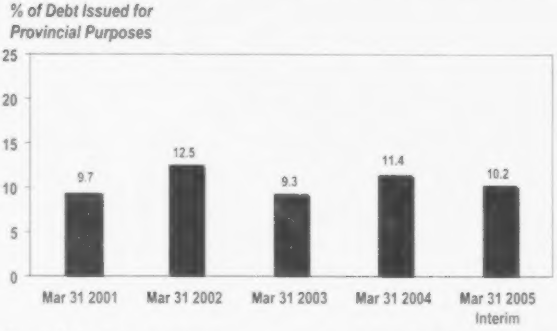
## DEBT MANAGEMENT

The Province mitigates financial risks associated with its capital market activities by adhering to prudent risk management policies and exposure limits.

The Province limits itself to a maximum interest rate reset exposure of 25 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes.

The Province's interest rate reset and foreign exchange exposures were below policy limits in 2004-05.

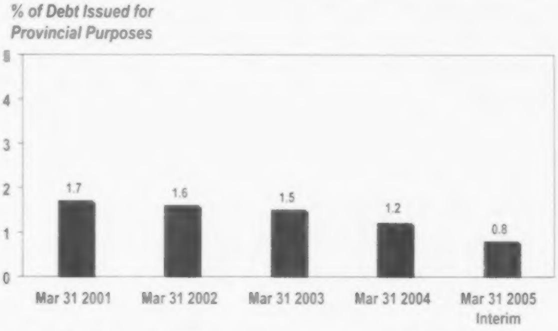
### Interest Rate Reset Exposure



*Source:* Ontario Financing Authority.

Excludes OEFC debt.

### Foreign Exchange Exposure



*Source:* Ontario Financing Authority.

Excludes OEFC debt.

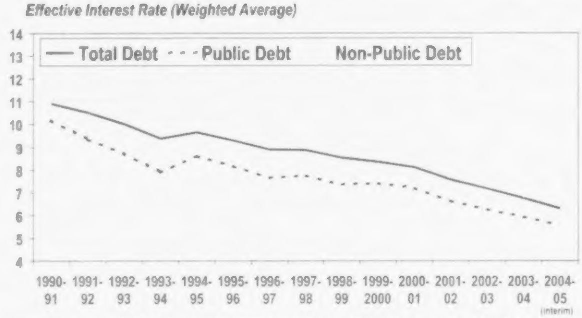
## LOWER AVERAGE COST OF DEBT

The Province has been able to take advantage of a lower interest rate environment by refinancing debt at more attractive interest rates.

As of March 31, 2005, the effective interest rate on Total Debt (on a weighted-average basis) was 6.3 per cent compared to 10.9 per cent on March 31, 1991.

The effective interest rate on public debt as of March 31, 2005 was 5.6 per cent compared to 10.0 per cent on non-public debt. The weighted-average interest rate takes into account the proportion of debt at each level of interest rate in the debt portfolio.

### Effective Interest Rate (Weighted Average) of Debt



Sources: Ontario Public Accounts 1991-2004 and Ontario Financing Authority (March 31, 2005).

## Consolidated Financial Tables

TABLE I (A): NET DEBT AND ACCUMULATED DEFICIT

TABLE I (B): DEBT MATURITY SCHEDULE

TABLE I (C): MEDIUM-TERM OUTLOOK—NET DEBT AND ACCUMULATED DEFICIT

TABLE I (D): DERIVATIVE PORTFOLIO NOTIONAL VALUE

## NET DEBT AND ACCUMULATED DEFICIT TABLE I (A)
Interim 2005 ($ Millions)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | Interim 2004-05 | Plan 2005-06 |
|---|---|---|---|---|---|---|
| **Debt**[1] | | | | | | |
| Publicly Held Debt | | | | | | |
| Debentures and Bonds[2] | 99,008 | 99,990 | 102,958 | 116,732 | 125,556 | 127,681 |
| Treasury Bills | 4,814 | 5,108 | 6,274 | 3,359 | 3,747 | 3,748 |
| U.S. Commercial Paper[2] | 959 | 1,566 | 1,515 | 1,156 | 269 | 269 |
| Ontario Strategic Infrastructure Financing Authority (OSIFA)[3] | - | - | - | 323 | 1,288 | 1,856 |
| Other | 447 | 447 | 438 | 422 | 404 | 390 |
| Deposits with the Province of Ontario Savings Office (POSO)[4] | 2,482 | 2,438 | - | - | - | - |
| | 107,710 | 109,549 | 111,185 | 121,992 | 131,264 | 133,944 |
| Non-Public Debt | | | | | | |
| Minister of Finance of Canada: | | | | | | |
| Canada Pension Plan Investment Fund | 12,709 | 11,944 | 10,746 | 10,233 | 10,233 | 10,233 |
| Ontario Teachers' Pension Fund | 11,535 | 11,043 | 10,387 | 9,487 | 8,666 | 7,596 |
| Public Service Pension Fund | 3,446 | 3,331 | 3,200 | 3,052 | 2,886 | 2,706 |
| Ontario Public Service Employees' Union Pension Fund (OPSEU) | 1,637 | 1,582 | 1,520 | 1,450 | 1,371 | 1,285 |
| Canada Mortgage and Housing Corporation | 1,147 | 1,116 | 1,078 | 1,047 | 1,003 | 960 |
| Other[5] | 657 | 581 | 356 | 1,096 | 1,219 | 1,256 |
| | 31,131 | 29,597 | 27,287 | 26,365 | 25,378 | 24,036 |
| **Total Debt** | **138,841** | **139,146** | **138,472** | **148,357** | **156,642** | **157,980** |
| Cash and Temporary Investments | (6,319) | (5,773) | (7,252) | (8,139) | (14,922) | (7,900) |
| Other Net (Assets)/Liabilities[6] | (26) | (1,252) | 1,427 | (1,348) | 1,774 | (2,250) |
| OSIFA - Net (Assets)/Liabilities[3] | - | - | - | (313) | (1,266) | (1,813) |
| **Net Debt** | **132,496** | **132,121** | **132,647** | **138,557** | **142,228** | **146,017** |
| Tangible Capital Assets[7] | - | - | (13,942) | (14,369) | (15,047) | (16,040) |
| **Accumulated Deficit** | **132,496** | **132,121** | **118,705** | **124,188** | **127,181** | **129,977** |

Source: Ontario Ministry of Finance.

(1) Includes debt issued by the Province and Government Organizations, including Ontario Electricity Financial Corporation.

(2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts.

(3) OSIFA's interim 2004-05 debt is composed of Ontario Opportunity Bonds ($323 million), Infrastructure Renewal Bonds ($650 million) and short-term commercial paper ($315 million). OSIFA's debt is not guaranteed by the Province.
OSIFA - Net (Assets)/Liabilities include cash, temporary investments, accounts receivable, loans receivable, debt issue costs and accounts payable.

(4) The Province completed the sale of POSO to Desjardins Credit Union effective March 31, 2003, with the POSO liabilities to the depositors assumed by the purchaser.

(5) Other non-public debt includes Ontario Municipal Employees Retirement Fund, College of Applied Arts and Technology Pension Plan, Ryerson Retirement Pension Plan, Ontario Immigrants Investor Corporation and indirect debt of school boards (the indirect debt of school boards was incurred in June 2003 to refinance the non-permanently financed debt of 55 school boards; an equivalent amount is included in Net Assets as advance payments to school boards).

(6) Other Net (Assets)/Liabilities include accounts receivable, loans receivable, advances and investments in government business enterprises, accounts payable, accrued liabilities, pensions and the liability for power purchase agreements with non-utility generators.

(7) Starting with fiscal year 2002-03, Tangible Capital Assets are capitalized and amortized over their estimated useful lives. In 2001-02 and prior years, the costs of Tangible Capital Assets were recognized as expenditures.

## DEBT MATURITY SCHEDULE
## Interim 2005

TABLE I (B)
($ Millions)

| Currency | Canadian Dollar | U.S. Dollar | Japanese Yen | Euro[1] | Other Currencies[2] | Interim 2004-05 Total | 2003-04 Total |
|---|---|---|---|---|---|---|---|
| Fiscal Year Payable | | | | | | | |
| Year 1 | 16,335 | 7,016 | 676 | 46 | - | 24,073 | 20,609 |
| Year 2 | 11,792 | 2,611 | 460 | - | - | 14,863 | 19,481 |
| Year 3 | 6,748 | 5,468 | 320 | - | 244 | 12,780 | 12,158 |
| Year 4 | 14,711 | 3,563 | - | 795 | 207 | 19,276 | 9,268 |
| Year 5 | 7,905 | 1,717 | 876 | 1,443 | 882 | 12,823 | 18,981 |
| 1-5 years | 57,491 | 20,375 | 2,332 | 2,284 | 1,333 | 83,815 | 80,497 |
| 6-10 years | 21,874 | 4,263 | 35 | 1,188 | 483 | 27,843 | 30,978 |
| 11-15 years | 4,344 | - | - | - | - | 4,344 | 1,718 |
| 16-20 years | 10,156 | - | - | - | - | 10,156 | 10,231 |
| 21-25 years | 14,993 | - | - | - | - | 14,993 | 14,368 |
| 26-40 years[3] | 15,491 | - | - | - | - | 15,491 | 10,565 |
| **Total[4]** | **124,349** | **24,638** | **2,367** | **3,472** | **1,816** | **156,642** | **148,357** |
| Debt Issued for Provincial Purposes | 100,693 | 19,935 | 2,367 | 3,472 | 1,369 | 127,836 | 120,481 |
| OEFC Debt | 22,368 | 4,703 | - | - | 447 | 27,518 | 27,553 |
| OSIFA Debt | 1,288 | - | - | - | - | 1,288 | 323 |
| **Total[5]** | **124,349** | **24,638** | **2,367** | **3,472** | **1,816** | **156,642** | **148,357** |

(1) Euro includes debt issued in legacy currency, i.e., French franc.

(2) Other Currencies comprise Australian dollar, New Zealand dollar, Pound sterling, Swiss franc and Hong Kong dollar.

(3) The longest term to maturity is to March 1, 2045.

(4) Total for all foreign currency denominated debt as at March 31, 2005 was $32.3 billion (2004, $30.3 billion). Of that, $31.2 billion or 96.6% (2004, $27.5 billion or 90.8%) was fully hedged to Canadian dollars.

(5) Total debt includes issues totalling $3.0 billion (2004, $2.9 billion) that have embedded options exercisable by either the Province or the bondholder under specific conditions.

## MEDIUM-TERM OUTLO
## NET DEBT AND ACCUMULATED DEFICIT

TABLE I (C)
($ Billions)

| | 2006-07 | 2007-08 | 2008-09 |
|---|---|---|---|
| **Total Debt** | **163.5** | **168.7** | **172.0** |
| Cash and Temporary Investments | (7.9) | (7.9) | (7.9) |
| Other Net (Assets)/Liabilities | (3.2) | (4.3) | (5.2) |
| OSIFA - Net (Assets)/Liabilities | (2.7) | (3.9) | (5.1) |
| **Net Debt** | **149.7** | **152.6** | **153.8** |
| Tangible Capital Assets | (17.4) | (18.8) | (20.0) |
| **Accumulated Deficit** | **132.4** | **133.9** | **133.9** |

Note: Numbers may not add due to rounding.

## DESCRIPTION OF DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents an interim maturity schedule of the Province's and OEFC's derivative financial instruments, by type, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts, are not indicative of credit or market risk, and are not representative of actual cash flows.

Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which the Province agrees with another party to exchange cash flows based upon one or more notional amounts using stipulated reference interest rates for a specified period. Swaps allow the Province to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures, options, caps and floors.

The Province also limits its credit risk exposure on derivatives by entering into contractual agreements (master agreements) that provide for termination netting and, if applicable, payment netting with virtually all of its counterparties.

### DERIVATIVE PORTFOLIO NOTIONAL VALUE
### Interim 2005

TABLE I (D)
($ Millions)

| Maturity in Fiscal Year | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 6-10 Years | Over 10 Years | Interim 2004-05 Total | 2003-04 Total |
|---|---|---|---|---|---|---|---|---|---|
| Swaps: | | | | | | | | | |
| Interest rate .......... | 13,567 | 7,710 | 10,747 | 11,205 | 7,854 | 15,127 | 3,781 | 69,991 | 55,013 |
| Cross currency ........ | 8,903 | 4,625 | 4,469 | 4,635 | 4,482 | 3,833 | - | 30,947 | 30,622 |
| Forward foreign exchange contracts ... | 5,241 | - | - | - | - | - | - | 5,241 | 2,755 |
| Futures ................ | 62 | - | - | - | - | - | - | 62 | 62 |
| Options ................ | - | - | - | - | - | - | - | - | 90 |
| Caps and floors ......... | 275 | 398 | - | - | 88 | - | - | 761 | 480 |
| **TOTAL** | **28,048** | **12,733** | **15,216** | **15,840** | **12,424** | **18,960** | **3,781** | **107,002** | **89,022** |

# GLOSSARY OF FINANCIAL INSTRUMENTS DESCRIBED IN PAPER D

**Bond Auction:** process in which participants are invited to bid on an amount of a bond on a semi-annual yield basis.

**Cap:** a contract that allows the purchaser to put a ceiling on the contractual interest rate of a liability.

**Domestic Bonds:** debt securities issued in the domestic market, clearing through a domestic clearing system.

**Euro Medium-Term Notes (EMTNs):** medium-term notes issued outside the United States and Canada and structured to meet individual investor requirements.

**Floating Rate Notes (FRNs):** debt instruments that bear a variable rate of interest. Coupons are linked to a floating interest rate index, and pay out at a predetermined yield spread to the index.

**Floor:** a contract that allows the purchaser to have a lower limit on the total rate of return of an asset.

**Forward Foreign Exchange Contract:** an agreement between two parties to set exchange rates in advance.

**Future:** an exchange-traded contract that confers an obligation to buy/sell a commodity at a specified price and amount on a future date.

**Global Bonds:** debt securities issued simultaneously in the international and domestic markets, settling through various worldwide clearing systems. These can be issued in a variety of currencies including Canadian and U.S. dollars.

**Medium-Term Notes (MTNs):** debt instruments offered under a registered program and structured to meet specific investor needs.

**Notional Value:** represents the face value of outstanding contracts. It does not represent cash flows.

**Option:** a contract whereby the buyer has the right to buy/sell a designated instrument at a specified price within a specified period of time.

**Swap:** a legal arrangement, the effect of which is that each of the parties (the counterparty) takes responsibility for a financial obligation incurred by the other counterparty. An interest rate swap exchanges floating interest payments for fixed interest payments or vice versa. A cross-currency swap exchanges principal and interest payments in one currency for cash flows in another currency.

**Syndicated Issues:** debt securities that are underwritten by a group of investment dealers.

**Treasury Bills:** short-term debt instruments issued by governments on a discount basis usually for durations of 91 days, 182 days, or 52 weeks.

**U.S. Commercial Paper (CP):** short-term debt typically issued by a government or corporation on a discount basis. CP is limited to terms of 1 to 270 days and is usually supported by a back-up bank line of credit.

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